Office of the Inspector General
U.S. Government Accountability Office

HUMAN CAPITAL

Opportunities Exist to Strengthen Controls over Recruitment, Relocation, and Retention Incentives

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Office of the Inspector General
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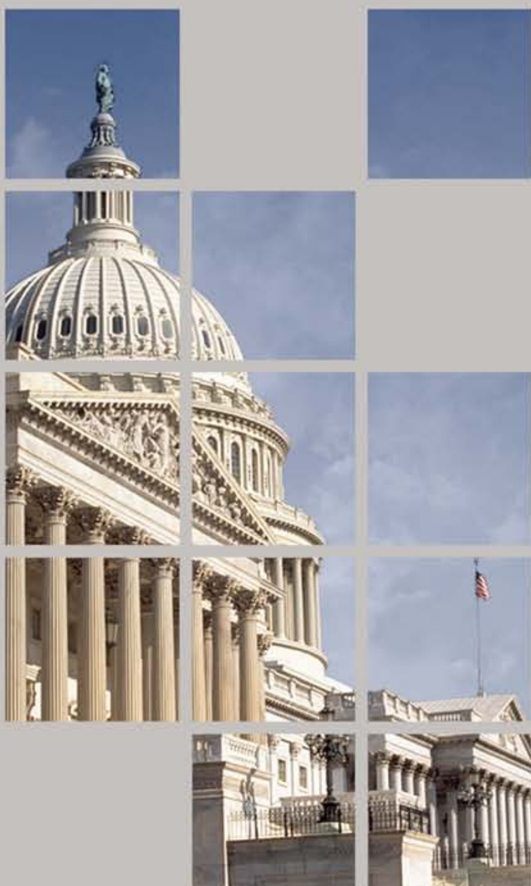
Report Highlights



August 2012

HUMAN CAPITAL

Opportunities Exist to Strengthen Controls over Recruitment, Relocation, and Retention Incentives

Objectives

This report examines the extent to which GAO's Human Capital Office had (1) established effective internal controls and oversight mechanisms to ensure that its recruitment, relocation, and retention incentives were consistent with GAO policy, and (2) aligned its use of these incentives with the agency's human capital strategic plan.

What We Found

GAO policy authorizes the use of recruitment, relocation, and retention incentives either to encourage individuals to accept a position that would otherwise be hard to fill or to retain an essential employee with unusually high or unique qualifications who is likely to leave the agency without a monetary incentive to stay. For calendar years 2009 through 2011, GAO used this authority for recruitment and retention purposes and made incentive payments of more than $1.8 million. Our audit of the internal controls and oversight for the incentive payment award process identified opportunities to strengthen controls, including the need to maintain appropriate supporting documentation; provide additional guidance to human capital staff to ensure proper, timely, and accurate execution and recording of administrative actions; and provide effective monitoring and oversight. In addition, we identified an opportunity for GAO to help ensure that incentive payments support agency recruitment and retention goals by establishing a clear agency-wide strategy and results-oriented performance measures for these payments.

What We Recommend

The Office of the Inspector General (OIG) made seven recommendations to help ensure consistency and adherence to GAO policy related to recruitment, relocation, and retention; to better align the use of these incentives with strategic human capital and workforce planning goals and objectives; and one recommendation to help management monitor and evaluate the effectiveness of controls. GAO agreed with our recommendations.

Memorandum

Date: August 28, 2012

To: Comptroller General Gene L. Dodaro

From: Inspector General Frances Garcia

Frances Garcia

Subject: *Human Capital: Opportunities Exist to Strengthen Controls over Recruitment, Relocation, and Retention Incentives*

In accordance with the law,[1] GAO policy authorizes the use of recruitment, relocation, and retention incentive payments either to encourage individuals to accept a position that would otherwise be hard to fill or to retain an essential employee with unusually high or unique qualifications who is likely to leave the agency without a monetary incentive to stay. For calendar years 2009 through 2011, GAO used this authority for recruitment and retention purposes and made incentive payments of more than $1.8 million. Our audit of the internal controls and oversight for the incentive payment award process identified opportunities to strengthen controls, including the need to maintain appropriate supporting documentation; provide additional guidance to human capital staff to ensure proper, timely, and accurate execution and recording of administrative actions; and provide effective monitoring and oversight. In addition, we identified an opportunity for GAO to help ensure that incentive payments support agency recruitment and retention goals by establishing a clear agency-wide strategy and results-oriented performance measures for these payments.

We initiated this audit to determine the extent to which GAO's Human Capital Office (HCO) had (1) established effective internal controls and oversight mechanisms to ensure that its recruitment, relocation, and retention incentives were consistent with GAO policy, and (2) aligned its use of these incentives with the agency's human capital strategic plan. To address our first objective, we analyzed and reconciled GAO files, including personnel and payment files, and interviewed knowledgeable officials, with the purpose of identifying the universe of incentive payments awarded from January 1, 2009, through December 31, 2011, by year and incentive type. Through our analyses, we determined the data were sufficiently reliable for purposes of this report. Using this universe of recruitment and retention incentive payments (GAO made no relocation incentive payments), we then performed a detailed file

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[1]Federal Workforce Flexibility Act of 2004, Pub. L. No. 108-411, 118 Stat. 2305 (Oct. 30, 2004); 5 U.S.C. §§ 5753 and 5754.

review of documentation intended to support the payment requests, their approval, and monitoring activities. We also assessed the effectiveness of GAO's controls and oversight mechanisms in ensuring compliance with GAO policy for these incentive payments. To address our second objective, we reviewed GAO's human capital strategic planning documents[2] considering best practices and guidance for strategic and human capital planning developed by GAO and the Office of Personnel Management (OPM) for federal agencies.[3] We also interviewed GAO staff and managers knowledgeable about recruitment, relocation, and retention incentives and human capital management.

We conducted this performance audit from September 2011 through August 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Through the Federal Workforce Flexibility Act of 2004, Congress provided agencies with enhanced recruitment, relocation, and retention bonus authorities to help improve the federal government's competitiveness in recruiting and maintaining a high-quality workforce. GAO has incorporated certain provisions of this law and OPM's regulations[4] into its policy for paying recruitment, relocation, and retention incentives. GAO Order 2575.1 provides this policy and the general framework of procedures, controls, and guidance for using these incentives at GAO.[5]

All GAO employees, with the exception of the Comptroller General, are eligible for incentive payments subject to the provisions of the GAO order. According to the order, a *recruitment payment* provides an incentive for an individual to accept a GAO position that would otherwise be difficult to fill. A recruitment incentive may be paid to a new appointee to GAO or to a former GAO employee who has had a break in service from GAO of at least 90 days. A *relocation payment* may be paid to a current employee who must relocate to accept a position in a different geographic area when the position otherwise would be difficult to fill in the absence of an incentive. A

[2]GAO, *Human Capital Interim Strategic Plan: Fiscal Years 2010 – 2012 "Linking Strategy to Results Through People,"* GAO-10-269SP (Washington, D.C.: Sept. *28, 2009)*; *Management Improvement Priorities Action Plan* (Jan. 21, 2010); and 2011 Recruitment Strategy as included in the *Fiscal Year 2011 Recruitment Kick-off Briefing* (Aug. 17, 2010, and Sept. 2, 2010).

[3]GAO reports and guidance included: *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, GAO-04-38 (Washington, D.C.: Mar.10, 2004); *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996); and *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C.: Dec. 11, 2003); and OPM, *Key Components of a Strategic Human Capital Plan* (September 2005).

[4]*Recruitment, Relocation, and Retention Incentives; Supervisory Differentials; and Extended Assignment Incentives*, 5 C.F.R. Part 575.

[5]GAO, *Recruitment, Relocation, and Retention Incentives*, GAO Order 2575.1 (June 30, 2006).

retention payment provides an incentive for a current employee to stay with GAO when the employee's unusually high or unique qualifications make it essential for GAO to retain the employee or when GAO has a special need for the employee's services and the GAO unit believes there is a high risk that the employee is likely to leave the agency in the absence of the incentive. In addition to eligibility requirements, the GAO order provides approval procedures and criteria, service agreement requirements, policies for determining incentive amounts and compensation limits, and payment options, as well as provisions for terminating service agreements and for oversight and review of retention incentive payments.

To request an incentive payment, the unit head of the requesting unit submits a written recommendation to the authorizing official that describes the difficulty experienced in recruiting qualified candidates with the competencies required for the position in the absence of an incentive. This recommendation is to be based on consideration of a number of factors to determine that a position is difficult to fill, including: (1) the availability and quality of candidates possessing the competencies required for the position; (2) the salaries typically paid outside the federal government for similar positions; (3) recent turnover in similar positions; (4) employment trends and labor-market factors that may affect the agency's ability to recruit candidates for similar positions; (5) special or unique competencies required for the position; (6) agency efforts to use nonpay authorities, such as special training and work scheduling flexibilities, to resolve difficulties alone or in combination with a retention incentive; or (7) the desirability of the duties, work or organizational environment, or geographic location of the position. The unit head also provides a recommendation and justification for the amount, payment option, and length of the required service period.

The Chief Human Capital Officer or designee is the authorizing official responsible for reviewing and approving incentive recommendations unless the incentive is recommended by the Chief Human Capital Officer or the amount exceeds 25 percent of basic pay based on critical agency needs.[6] For such exceptions, the authorizing official is the Chief Administrative Officer or the Comptroller General if the incentive is recommended by the Chief Administrative Officer. HCO is responsible for maintaining all documentation sufficient to allow reconstruction of incentive-related actions.

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[6]According to GAO Order 2575.1, basic pay refers to an employee's total annual rate of pay, including the geographic zone differential but before deductions and exclusive of premium pay of any kind.

Incentive Payments for Calendar Years 2009 through 2011

Our analysis showed that from January 1, 2009, through December 31, 2011, GAO paid more than $1.8 million in recruitment and retention incentives, with approximately $1.4 million (about 75 percent) paid for employee retention purposes. GAO paid these incentives to a total of 155 employees—106 for recruitment, 49 for retention, and none for relocation. Table 1 summarizes the number of employees and amounts paid for each type of incentive by calendar year.

Table 1: Number of Employees and Dollar Amounts of GAO Incentive Payments for Calendar Years 2009 through 2011

	Recruitment incentives		Relocation incentives		Retention incentives		Total incentives	
Calendar year	Number of employees	Amount paid	Number of employees	Amount paid	Number of employees[a]	Amount paid	Number of employees[a]	Amount paid
2009	57	$252,893	0	$0	43	$472,309	100	$725,202
2010	46	190,500	0	0	43	474,084	89	664,584
2011	3	30,000	0	0	44	438,314	47	468,314
Total	**106**	**$473,393**	**0**	**$0**	**49**	**$1,384,707**	**155**	**$1,858,100**

Source: OIG analysis of GAO data.

[a]Employees may receive retention incentive payments over several years. As a result, the columns showing the total number of employees receiving these payments and the total number of employees who received incentive payments over the three years do not total.

GAO used recruitment incentives to hire employees in 16 different occupational series during the 3 years in our audit. Recruitment incentives were paid most frequently for the auditing (55 employees received recruitment incentives totaling $196,000) and computer science (19 employees received payments totaling $73,393) occupational series. Payments offered for the computer science occupation—the only occupational series to receive recruitment incentives all 3 years—were $4,000 each. Table 2 summarizes recruitment incentive data by occupational series for the 3-year period covered in our audit.

Table 2: Total Employees Hired and Recruitment Incentives Paid by Occupational Series for Calendar Years 2009 through 2011

Occupational series		2009 through 2011			
Number	**Title**	**Employees paid a recruitment incentive**	**Total employees hired**	**Percentage of employees hired who received a recruitment incentive**	**Total recruitment incentives paid**
101	Social science	1	12	8%	**$5,000**
110	Economist	6	7	86%	**35,000**
201	Human resource management	2	14	14%	**10,000**
340	Program management	1	13	8%	**5,000**
343	Management and program analysis	1	10	10%	**4,000**
347	GAO analyst	1	426	0%	**6,000**
501	Financial administration and program	1	2	50%	**7,500**
511	Auditing	55	73	75%	**196,000**
801	General engineering	1	4	25%	**5,000**
904	Law clerk	3	7	43%	**22,500**
905	General attorney	5	12	42%	**38,000**
1301	General physical science	1	2	50%	**5,000**
1510	Actuarial science	1	1	100%	**20,000**
1530	Statistics	1	1	100%	**4,000**
1550	Computer science	19	19	100%	**73,393**
2210	Information technology	7	21	33%	**37,000**
Total		**106**	**624**	**17%**	**$473,393**

Source: OIG analysis of GAO data.

GAO made retention incentive payments during the 3 years in our audit to 49 employees within 13 occupational series but most frequently to employees within the GAO analyst, social science, economist, and auditing positions. Specifically, GAO paid a total of $301,175 to 11 GAO analysts, $210,467 to 7 social scientists, $226,614 to 6 economists, and $134,171 to 7 auditors. For those employees who received a retention incentive within the 3-year period, the percentage rate used by HCO in calendar year 2011 to calculate retention incentives ranged from 1 percent to 25 percent of the employee's basic salary, with an average rate of 8 percent. Table 3 summarizes retention incentive data by occupational series for the 3-year period.

Table 3: Retention Incentives Paid by Occupational Series for Calendar Years 2009 through 2011

Occupational series		2009 through 2011			
Number	Title	Employees paid a retention incentive	Average total employees in occupational series	Average percentage of employees paid a retention incentive	Total retention incentive payments
1	Senior executive service	3	127	2.37%	**$94,710**
80	Security administration	1	17	6.00%	**22,435**
101	Social science	7	48	14.48%	**210,467**
110	Economist	6	56	10.65%	**226,614**
301	Miscellaneous administration and program analysis	1	42	2,38 %	**8,971**
347	GAO analyst	11	1,800	0.61%	**301,175**
511	Auditing	7	250	2.80%	**134,171**
1001	General arts and information[a]	3	96	3.14%	**51,291**
1529	Mathematical statistics	3	7	42.86%	**87,066**
1530	Statistics	1	5	20.00%	**72,655**
1550	Computer science	1	113	0.89%	**3,199**
1811	Criminal investigation	2	14	14.63%	**37,451**
2210	Information technology	3	164	1.83%	**134,682**
Total		**49**	**2,738**	**1.79%**	**$1,384,707**

Source: OIG analysis of GAO data.

Note: Total retention incentive payments do not add due to rounding.

[a]In 2011, GAO reclassified communications analysts and visual communications analysts previously classified in other series into occupational series 1001, General Arts and Information.

Improved Controls Needed to Help Ensure Consistency and Adherence to Incentive Payment Policy

Although GAO Order 2575.1 sets the agency's policy for awarding incentives and contains some procedural guidance regarding documentation and oversight, HCO generally did not have the detailed procedures needed to guide its personnel and others in ensuring compliance with requirements prescribed by the order. Specifically, we found that (1) key documentation was not maintained to support reconstruction of incentive actions or did not support adherence to policy; (2) human capital staff needed additional guidance to effectively implement, administer, and oversee use of these monetary tools; and (3) improvements in monitoring and oversight activities were needed to help ensure that the use of incentive payments complies with policy requirements and effectively supports human capital plans, goals, and objectives.

Documentation Not Maintained or Inadequate

HCO is required to maintain sufficient documentation to allow a reviewer to reconstruct key actions associated with awarding recruitment and retention incentive payments, including the original request memorandum, service agreements, and approval determinations. Our work showed that documentation to support recruitment actions was generally limited to service agreements. As a result, HCO could not provide documentation to support 73 percent of the recruitment incentives paid over the 3-year period in our audit. In contrast, HCO retained more of the documentation needed to reconstruct key actions regarding retention incentives, including 71 percent of the original request memorandums. In addition, while GAO Order 2575.1 requires that legal requirements, including eligibility and compensation limitations,[7] be met prior to approval of a recruitment or retention incentive, HCO had no documentation to support compliance with these requirements. However, we verified that none of the employees who received a recruitment or retention incentive during the 3 years in our audit had total salary amounts that exceeded the compensation limits.

Our audit identified the following instances of HCO's documentation being inadequate to reconstruct the need for the incentive or to justify the incentive amount or percentage rate used to calculate the retention incentive amount.

Recruitment incentives. None of the 29 written recommendations we examined provided adequate justification for the amount awarded. For 23 of the 29 recommendations, HCO relied on an August 2008 memorandum to document recommendation and approval actions related to recruitment of financial auditors in fiscal year 2009. The memorandum identified a set dollar amount of $2,500 or $4,000 per employee, based on the individual's level of education, but did not provide a basis for these amounts. Further, the memorandum did not demonstrate consideration of factors prescribed by the order for determining when a position is difficult to fill, such as the availability and quality of candidates possessing the required competencies and the success of recent efforts to recruit candidates for similar positions. Moreover, while OPM regulations[8] permit the use of group incentives, HCO did not incorporate this provision of the OPM regulations into the GAO order. According to HCO officials, HCO will consider amending GAO Order 2575.1 to provide an explicit reference to group recruitment incentives. Of the remaining six recommendations that provided no basis for the recruitment incentive amount, one also did not show that consideration was given to any of the justification factors identified in the order as a basis for recommending the recruitment incentive, as required.

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[7]GAO Order 2575.1 states that payment of a recruitment, relocation, and retention incentive is subject to the aggregate limitation on pay under 5 U.S.C. § 5307 and 5 C.F.R. § 530, subpart B, which limits payment of bonuses, awards, or other cash payments under title 5 in any given year when payments to an employee's basic pay would exceed the rate payable that year for level I of the Executive Schedule, which is currently $199,700.

[8]5 C.F.R. § 575.105 (b).

Retention incentives. While HCO retained more of the documentation associated with retention actions than recruitment actions, we found that the documentation did not always support efficient reconstruction of the actions taken and that justifications provided for awarding a retention incentive did not always fully address the requirements of the order. Specifically, we found that HCO had retained the original request memorandums for 35 (71 percent) of the 49 employees who received a retention incentive within the 3-year period. However, for 8 of these 35, our analysis showed that HCO had approved retention incentive rates that differed from those recommended by the requesting manager and we could find no explanation of how the approved rate was determined in the file documentation. For 3 of the 8, the approved percentage rate used to calculate the retention incentive was higher than the recommended rate.

In another case, we could not reconstruct HCO's basis for awarding an employee a bi-weekly retention incentive rate of 6 percent of basic salary with a $3,000 lump sum payment. HCO had not retained the original request memorandum, but the file contained a prior approval for 4 percent with no lump sum payment and no documentation to support the basis for its final approval determination. In addition, we found 12 original request memorandums that did not contain a basis, such as a job offer or labor-market factors, for justifying the percentage rate recommended, as required.

We also found that while HCO had obtained written requests for most of the retention incentives paid in 2011, HCO approved the continuation of five retention incentives following its January 2011 review based on oral agreements with the requesting manager. The only documentation available to reconstruct HCO's review of these five incentives consisted of handwritten notations on HCO memorandum requests for management input regarding continuation, reduction, or termination of retention incentives. While these notations documented approval, they provided no basis for the decision or support that consideration was given to any of the required factors for determining whether a retention incentive was still needed or should be reduced or terminated.

There are currently no time limits on the use of retention incentives, and GAO's order does not require units to provide written certifications to continue a retention incentive or to demonstrate the cost effectiveness of their extended use; furthermore, the order does not require that the use of such payments be linked either to a succession plan that identifies existing staff to develop and fill critical positions or to a recruitment strategy. To illustrate how these incentives are being used at GAO, table 4 shows that 20 of the 49 employees who received retention incentive payments during the 3-year period had received such payments for 5 years or more.

Table 4: Length of Retention Incentives and Number of Employees Receiving Incentives from Calendar Years 2009 through 2011

Length of time	Number of employees	3-year total paid
Less than 3 years	11	**$158,886**
3 years to less than 5 years	18	**544,887**
5 years to less than 8 years	10	**224,356**
8 years to less than 10 years	2	**76,290**
10 years or more	8	**380,288**
Total	**49**	**$1,384,707**

Source: OIG analysis of GAO data.

While retention incentives are important flexibilities for retaining critical skills, these incentives are not intended to be a replacement for sound succession management and planning. OPM has proposed regulations that add succession planning to the list of factors an agency may consider before approving a retention incentive in an effort to improve administration and oversight and to provide greater emphasis on the cost and benefits associated with awarding or continuing retention incentives.[9] Specifically, agencies would be required to determine whether a retention incentive should be provided to an employee or whether other employees identified in the agency succession plan possess the competencies required for the position and could perform at the same level with minimal training, cost, and disruption of service. While GAO is not required to follow OPM guidance, strengthening justifications for ongoing retention incentive payments and including succession planning among its justification factors may help ensure that the extended use of retention incentive payments is cost effective and consistent with agency goals.

Our audit identified several factors that may have contributed to HCO's difficulty in providing the documentation needed to reconstruct incentive actions. First, we found that HCO relied on employees assigned to its various units to process recruitment incentive actions in compliance with policy and had not identified an accountable individual for overall administration and oversight of recruitment actions. Second, HCO had not provided detailed procedures regarding how recruitment incentive action documentation should be maintained to its staff. Third, HCO had not enforced GAO's documentation retention policy, which requires that important records and files be retained in the agency's records management system (DM/ERMS).[10] As a result, documentation pertaining to recruitment incentives was primarily limited to the service agreements maintained in individual employee personnel files rather than in the records management system. According to HCO staff, implementation of the HR Connect human resource system within HCO should help document actions taken,[11]

[9]OPM, proposed regulation, *Pay under the General Schedule and Recruitment, Relocation, and Retention Incentives* (76 Fed. Reg. 1096, Jan. 7, 2011).

[10]GAO's Document Management/Electronic Records Management System (DM/ERMS) is the agency's official records management system that is intended to capture, preserve, provide ready access to, and protect the integrity of important documents, records, and files related to GAO's business activities, processes, and engagements.

[11]According to HCO staff, HR Connect—the Department of the Treasury's primary human resource system—is intended to help integrate and support its human capital functions and processes.

though most of the documentation to support the basis for the recruitment and retention incentive actions, such as the memorandums recommending the incentive, job offers, decision determinations, and other supporting documentation, would still have to be maintained in GAO's records management system.

During our audit, we also identified a tool used by other agencies that could potentially help HCO ensure maintenance of key documentation. Other agencies, such as the Food and Drug Administration and the Internal Revenue Service, use a standard form to document incentive request and approval actions. A standard form, with links or references to supplemental documentation—such as a copy of the job offer and support for the incentive amount or rate requested, could aid records maintenance and facilitate documentation of actions taken and by whom, including validation of eligibility requirements prior to approval of an incentive.

Detailed Procedures Needed

Standard operating procedures can provide detailed guidance and serve as key controls that enable an organization to provide management with reasonable assurance that the objective or intent of its policy is achieved. However, HCO has not developed detailed procedures that describe the actions or processes for its staff and others to use for consistent implementation of the agency's recruitment and relocation incentive policies. Further, although GAO had developed procedures for retention incentives, we identified several areas where improvements could be made to help ensure compliance with the order.

Recruitment incentives. As previously discussed, HCO retained only limited documentation regarding its recruitment incentive activities. In our opinion, the need for detailed procedures to guide HCO's administration and oversight activities contributed not only to the lack of available documentation to reconstruct the basis for HCO's recruitment incentive actions, but also to the difficulties we encountered in obtaining a complete and reliable listing of employees who had received a recruitment incentive during the 3 years in our audit. The lack of detailed procedures to timely identify individuals who left GAO prior to completing their agreed service period may have also contributed to HCO's failure to identify and properly execute collection actions for one of the four employees who received a recruitment incentive within the 3-year period in our audit, but left GAO prior to completing the required service period. During our audit, GAO's Chief Human Capital Officer designated a senior human capital specialist to manage its recruitment incentive activities and began implementation of a centralized electronic file within the records management system to capture and retain documentation associated with the recruitment incentive actions. GAO also initiated efforts to develop detailed procedures for recruitment incentive payments.

Relocation incentives. HCO does not have detailed procedures for relocation incentives because the agency has not utilized relocation incentives for years and currently has no plans to use this incentive. However, since relocation payments are included in the GAO order and could be used in the future, we believe it would be prudent for HCO to establish detailed procedures at this time rather than wait until after a decision is made to use this incentive.

Retention incentives. Although HCO has detailed procedures for retention incentives, we found that procedures outlined for approvals were not consistent with those required by the order. Specifically, the GAO order states that all retention incentive requests are to be approved by the Chief Human Capital Officer or designee unless the incentive is requested by the Chief Human Capital Officer or the incentive rate request exceeds 25 percent of an employee's basic pay. However, HCO's procedures for retention incentives state that approvals related to Senior Executive Service (SES) employees are made by the Chief Administrative Officer. In addition, based on our examination of retention files and procedures, we identified several areas where additional detail would be helpful in guiding HCO efforts to ensure compliance with the order. Specifically, we found that HCO's retention procedures did not specify

- what documentation should be included in the "business case" or "review materials" provided to the Chief Human Capital Officer during the approval process. This documentation is important in that it provides the basis for an incentive approval. Having a clear description of what should be provided to the approving official enforces consistency in applying the procedures and enforces compliance with the order.

- the criteria for determining whether there is sufficient basis for (1) the specific retention incentive amount or rate recommended or (2) continuation of the retention incentive. Clear criteria would help HCO ensure that retention incentives are reviewed and approved consistently, are cost effective, and are aligned with GAO's workforce goals and critical needs.

- how final approval of a retention incentive should be documented, including decisions that result in rates that differ from those requested or prior approvals, or result in an employee receiving both biweekly incentive payments and a lump sum payment following completion of a specified period of service.

- the process for identifying and taking appropriate actions regarding employees for whom conditions warrant termination of their incentive due to demotion, separation for cause, ratings lower than "meets expectations," or disciplinary action.

- the process that should be followed to ensure that each retention incentive is reviewed at least annually and that action to reduce or terminate a retention incentive as a result of a review is taken promptly.

- records maintenance requirements, including the location of key documentation─such as complete lists of employees approved to receive retention incentives each year, initial and subsequent justification and approval documentation, and other documentation needed to reconstruct actions associated with awarding a retention incentive.

HCO has initiated efforts to ensure consistency with the order and strengthen the criteria and processes used to determine percentage rates for incentives and provide a basis for decisions to continue, reduce, or terminate a retention incentive.

Terminating conditions. Our work showed that HCO needs an integrated process and procedures to identify actions that require an employee's incentive to be terminated. According to GAO policy, incentives can be terminated based on (1) management need (for reasons such as workforce restructuring or the employee is assigned to a different position); (2) employee actions, including a demotion or separation for cause, a rating of less than "meets expectations" on any competency in the latest performance rating, or a disciplinary action; (3) a change to a higher position; (4) a promotion; or (5) an employee leaving a position for which an incentive was approved. We identified one employee receiving a retention incentive that HCO had taken disciplinary action against in April 2011, but had not terminated the incentive as required by the order because the HCO staff members responsible for retention incentive actions were unaware that the disciplinary action had occurred until we informed them in April 2012. In response to our audit, HCO terminated the employee's retention incentive in June 2012 and is in the process of developing a process and procedures to identify and respond to terminating conditions.

<u>Improvements Are Needed in Monitoring and Oversight Activities</u>

GAO's *Standards for Internal Control in the Federal Government* [12] requires that internal control be designed to assure that ongoing monitoring occurs in the course of normal operations, which includes periodic evaluations of controls to assess whether they are operating effectively, regular management oversight activities (for example, HCO's requirement for annual reviews of retention incentives), and periodic reporting to management. According to GAO Order 0201.3, *Management Responsibility for Internal Control,* the GAO Controller directs the assessment of and reporting on the effectiveness of GAO's internal control in accordance with the principles of Office of Management and Budget's (OMB) Circular No. A-123.[13] Our audit showed that monitoring and oversight activities could be improved to better ensure that required documentation is maintained, administrative controls over incentive actions and payments are operating effectively, annual reviews of retention incentives are performed, and management has the information it needs to effectively oversee this program and ensure that incentives are used in a manner consistent with human capital plans, goals, and objectives.

Periodic evaluations of control can be useful in assessing the effectiveness of a program and compliance with applicable policies and procedures. However, we found that HCO's recruitment and retention incentive actions are not reviewed as part of the agency's annual management assessment of the effectiveness of the agency's internal controls (A-123 review). Moreover, while GAO performs periodic testing of payroll transactions as part of its internal control review, it has not looked

[12]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

[13]OMB Circular A-123 Revised, *Management's Responsibility for Internal Control* (Dec. 21, 2004).

at certain transaction types, such as incentive payment actions due to the low dollar value of incentive payments in comparison to GAO's overall payroll. During the course of our audit, the manager responsible for the agency's A-123 review process stated that recruitment and retention incentives may be included as one of the areas for review in a future review cycle.

GAO Order 2575.1 requires at least an annual review of each retention incentive that is paid in equal biweekly installments at the retention incentive percentage rate to determine whether the incentive should be retained, reduced, or terminated. However, HCO has not performed annual reviews of each retention incentive as required. We found that HCO conducted no annual reviews in calendar year 2009 or 2010. Further, although HCO conducted an annual review of 36 retention incentives in January 2011, HCO excluded three employees from its review even though their retention incentive had not been reviewed in the past year. According to HCO staff, one of the three employees was excluded from the review in error. The remaining two employees were excluded because (1) one was an SES employee even though GAO policy and retention procedures do not explicitly exclude SES from annual review and (2) the other had been approved in fiscal year 2010 even though the approval had occurred almost 14 months prior to the January 2011 review.

During the summer of 2011, GAO evaluated the percentage rates used to calculate retention incentives for 36 employees receiving retention incentive payments to identify budgetary savings. The evaluation did not include an assessment of unit justifications to determine whether a retention incentive should be continued, reduced, or terminated since HCO had reviewed most of the justifications supporting retention incentive payments during its January 2011 review. As a result of its summer evaluation, the percentage rates used to calculate retention payments for 27 employees were reduced by either 1 or 2 points and the rates for 9 employees remained unchanged because the current retention incentive had been approved within the last 2 fiscal years or the employee was an SES.

Although GAO evaluated retention incentive rates during the summer of 2011, more than 18 months have passed since HCO performed an annual review of justifications to determine whether a retention incentive should be continued, reduced, or terminated. According to HCO officials, the next annual review of retention incentives is scheduled to begin August 2012.

Periodic reporting to management is an important control tool that provides managers with information needed to help perform their program oversight responsibilities. HCO officials acknowledged that periodic reporting to GAO executives and management was not performed or required. The lack of visibility of HCO's incentive activities by GAO management may have contributed to the difficulties we encountered at the beginning of our audit in identifying the universe of employees who had received a recruitment or retention incentive during the 3-year period and the longevity of retention incentives. In response to our audit, HCO officials stated that GAO intends to institute periodic reporting to GAO executives and managers regarding the agency's use of recruitment and retention incentives. Data to consider incorporating in these reports include: employee name;

occupational series; level of the staff receiving the incentive; the start date pertaining to the initial incentive; whether a promotion has occurred during the year; whether a succession plan or recruitment strategy is identified, as appropriate, to mitigate the need for the incentive payments in the future; and the date of the last review.

Employee Incentives Should Be Fully Incorporated into Strategic Human Capital Planning

GAO has previously identified the need for federal agencies to ensure that use of human capital flexibilities—such as recruitment, relocation, and retention incentive payments—is part of an overall human capital strategy that is clearly linked to the agency's program goals.[14] Although GAO recognizes the importance of strategic human capital management and a results-oriented organizational culture, we found that the agency's human capital strategy does not provide a clear approach for the use of recruitment, relocation, and retention incentive payments or an assessment of the associated costs and benefits derived from their use. GAO's current human capital strategic plan[15] establishes an objective to recruit, develop, deploy, and retain a diverse, high-quality workforce, and references developing a recruitment strategy to support near- and long-term staffing requirements and enhancing retention strategies to ensure they are responsive to employees' values. However, we found that the plan does not address how recruiting and retention incentives will be used or the results expected from their use. Further, the plan does not identify measures GAO will use to evaluate actual results. Although the agency has a strategic workforce planning process to continuously analyze and monitor, among other things, the number and skill mix of its employees and to plan for hiring, attrition, and promotions, at the time of our audit, the process did not capture data on the use or cost of recruitment, relocation, and retention incentives.

Moreover, while GAO has performance measures such as new hire and retention rates, they do not provide a clear assessment of whether incentive payments were effectively targeted or helped the agency ensure that the benefits derived are commensurate with their costs and are consistent with strategic human capital and workforce planning goals and objectives. For example, GAO uses its new hire rate measure to provide an indication of the extent to which GAO was able to hire the number of employees it planned to hire within a fiscal year. However, it does not provide information about whether GAO used recruitment and retention incentives to attract or retain employees or whether an incentive payment was effective in the short term (duration of service agreement) or long term (beyond the time period specified in their service agreement). Similarly, GAO's retention rate measure provides an indication of the percentage of people who have not left the agency in the past fiscal year, but it does not provide an assessment of the effectiveness of retention incentive payments to retain staff.

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[14]GAO, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces,* GAO-03-2 (Washington, D.C.: Dec. 6, 2002). As an example, see *Human Capital: Opportunities Exist for FDA and OPM to Improve Oversight of Recruitment, Relocation, and Retention Incentives,* GAO-10-226 *(Washington, D.C.: Jan. 22, 2010)*.

[15]GAO-10-269SP.

We recognize, as GAO previously reported,[16] that measuring the direct effect of recruitment, relocation, or retention incentive payments on recruitment and retention trends may be difficult because they are not likely to be the only factor in an employee's decision to join or stay with GAO. While incentive payments may influence an employee's decision, other factors, such as labor market conditions and GAO's standing as one of the best places in government to work, could also affect these decisions. In prior work regarding student loan repayment programs (another type of employee incentive), GAO described similar difficulties faced by federal managers in developing useful, outcome-oriented performance measures and proposed that agencies collaborate more to develop strategies to identify performance indicators and measure contributions to specific outcomes.[17] GAO executive management acknowledged that the agency's current performance measures do not provide an assessment of the effectiveness of incentive payments in recruiting or retaining staff and have initiated efforts to identify data that could be used to develop appropriate performance measures.

Conclusions

Recruitment, relocation, and retention incentive payments are important flexibility tools that can help GAO hire, retain, and strategically manage its workforce. Establishing appropriate internal controls for these tools is essential to help ensure they are used efficiently and effectively. GAO recognizes the importance of controls for the incentives program and, in response to our work, has initiated actions to strengthen its framework of plans, policies, procedures, and oversight processes pertaining to the use of these important incentives. However, to help further ensure their effectiveness, we believe GAO should incorporate the use of these incentives, the results the agency expects to achieve, and the measures that will be used to assess their effectiveness as part of GAO's human capital management strategic planning process.

Recommendations for Executive Action

To help ensure consistency and adherence to GAO policy and applicable statutes and regulations related to recruitment, relocation, and retention incentives, and to better align the use of these incentives with strategic human capital and workforce planning goals and objectives, we recommend that the Comptroller General direct the Chief Human Capital Officer to take the following seven actions:

1. Update GAO's recruitment, relocation, and retention incentive policy contained in GAO Order 2575.1 to

    a. strengthen justification factors for the continuation of retention incentive payments by requiring a timeline or strategy for eliminating, as appropriate, the need for future payments, and

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[16]GAO-10-226.

[17]See for example, GAO, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, GAO-04-38 (Washington, D.C.: Mar. 10, 2004).

b. include a requirement for periodically reporting to GAO management and executives on the agency's use of these incentives.

2. Consider development and use of a standard form to aid in documenting incentive-related actions and maintaining documentation needed to support reconstruction of actions taken.

3. Develop and implement detailed procedures for ensuring compliance with recruitment and relocation requirements provided in GAO Order 2575.1.

4. Revise retention procedures to address any inconsistencies with GAO Order 2575.1 and to ensure the completeness of the detailed procedures in support of compliance.

5. Establish an integrated process and procedures to identify and terminate, in a timely manner, recruitment, relocation, or retention incentives based on the occurrence of conditions for termination as defined by GAO Order 2575.1.

6. Establish a process to ensure that each retention incentive is reviewed at least annually to determine whether it should be retained, reduced, or terminated, and if it is to be continued or reduced, to verify that a succession plan or recruitment strategy is in place, as appropriate, to eliminate the need for the incentive in the future.

7. Incorporate the use of recruitment, relocation, and retention incentives into GAO's strategic human capital planning to specify a plan for their use, the results GAO expects to achieve, and the measures that will be used to assess their effectiveness.

In addition, to help management monitor and evaluate the effectiveness of controls related to recruitment, relocation, and retention incentives, we recommend that the Comptroller General direct the Chief Administrative Officer to take the following action:

Include recruitment, relocation, and retention incentives, as appropriate, in periodic internal management reviews of internal controls (A-123 reviews) to help ensure that control activities─such as documentation maintenance, and transaction execution and recording controls─are functioning properly.

Agency Comments and Our Evaluation

The Inspector General provided GAO with a draft of this report for review and comment. GAO agreed with our recommendations and their comments can be found in the attachment. The agency also provided technical comments that we incorporated, as appropriate.

Actions taken in response to our recommendations are expected to be reported to my office within 60 days.

We are sending copies of this report to the other members of GAO's Executive Committee (Chief Operating Officer, Chief Administrative Officer/Chief Financial Officer, and General Counsel), GAO's Audit Advisory Committee, and other key managers. The report is also available at no charge on the GAO website at http://www.gao.gov/about/workforce/ig.html.

If you or your staff have any questions about this report, please contact me at (202) 512-5748 or garciaf@gao.gov. Contact points for GAO's Office of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Evelyn Logue; Ann Borseth; Cathy Helm, Deputy Inspector General; and Michael Volpe, Counsel.

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Memorandum

Date: August 17, 2012

To: Inspector General – Frances Garcia

From: Chief Administrative Officer – David M. Fisher

Subject: Agency Comments on Recruitment, Relocation, and Retention Incentives Report

Thank you for the opportunity to review your draft report on Recruitment, Relocation, and Retention Incentives offered to GAO employees. Overall, we agree with the eight recommendations contained in your report, and we concur that additional oversight and monitoring is needed in this area.

At this time, we offer only the general comments below. As required, and within 60 days of your published report, we will provide you with a summary of actions taken to date or planned actions for each recommendation.

General Comments

- To enhance the controls of this program and enforce stricter oversight, GAO plans to elevate the approval level for employee recruitment and retention incentives to the Chief Administrative Office by revising our policy found in GAO Order 2575.1.
- It is important to note that, in this tight budget environment, the agency has been very cognizant of the dollars expended on employee incentives. From 2009–2011 (the time period reviewed for this report), there has been a significant decline in the total dollar amounts provided each year for incentives – almost a 35% reduction over three years.

In closing, we appreciate your work in this area and for identifying actions to take to strengthen controls over employee incentives while continuing to meet the goals and objectives of GAO and our mission, including attracting and retaining a highly qualified workforce to carry out critical assignments.

If you have any questions, please contact me on 512-5800.

cc: Cher Whitaker, Deputy Chief Administrative Officer
Bill Anderson, Controller
Pam Frere, FMBO/PAO Director
Cathy Helm, Deputy OIG
Audry Britton, OIG Executive Assistant

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