To Address Its Human Capital Challenge, the Internal Revenue Service Needs to Focus on Four Key Areas

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TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

August 19, 2009

MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT
DEPUTY COMMISSIONER FOR SERVICES AND ENFORCEMENT

Michael R. Phillips

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – To Address Its Human Capital Challenge, the Internal Revenue Service Needs to Focus on Four Key Areas (Audit # 200910011)

This report presents the results of our review of the Internal Revenue Service's (IRS) human capital[1] challenge. Our objective was to assess the IRS' actions in addressing its human capital challenge and was based upon prior Treasury Inspector General for Tax Administration and Government Accountability Office reports and took into account current efforts underway at the IRS. This review is part of our Fiscal Year 2009 Annual Audit Plan coverage under the major management challenge of Human Capital and is part of our broad strategy for assessing the IRS' human capital efforts at the agency-wide level.

Impact on the Taxpayer

The IRS has experienced workforce challenges over the past few years, including recruiting, training, and retaining employees, as well as an increasing number of employees who are eligible to retire. While the IRS has recently increased its focus on workforce issues, we believe the IRS will have to address several key areas to make progress in addressing its human capital challenge. If the IRS is not successful, it may not have the right people in the right place at the

[1] Human capital is used to describe the skills, abilities, and contributions of the employees in an agency.

right time to achieve its mission of providing taxpayers with top quality service and enforcing the law with integrity and fairness to all.[2]

Synopsis

The IRS faces a loss of leadership and technical employees that could threaten its ability to provide American taxpayers with the service they have come to expect. Today, the IRS has approximately 106,000 employees, including 9,100 managers. However, more than half of the IRS' employees and managers have reached age 50, and 39 percent of IRS executives are already eligible for retirement. To fill the projected shortage in leadership ranks, the IRS has stated that it must recruit one manager a day for the next 10 years. Furthermore, the rate at which new recruits are leaving the IRS during the first and second year of employment has increased since Fiscal Year 2005.[3] The pending loss of institutional knowledge and expertise at all levels and the challenge of retaining a highly skilled workforce increase the risk that the IRS may not be able to achieve its mission.

The IRS' challenge of having the right people in the right place at the right time is made more difficult by many complex internal and external factors. Future IRS leaders will need to be more proactive, embrace change, and think on a larger scale. In addition, the work performed by IRS employees continually requires greater expertise as tax laws become more complex, manual systems used to support tax administration become computer based, and attempts by taxpayers and tax practitioners to evade compliance with the tax laws become more sophisticated. The IRS must also compete with other Government agencies and private industry for the same human resources, complicated by the fact that younger generations of employees move between jobs more frequently than employees in the past. Furthermore, budget constraints, legislative changes, and economic shifts can create unforeseen challenges for the IRS in addressing its long-term human capital issues. However, the recent surge of college graduates' interest in Federal employment, resulting from unemployment in the private sector and a call to public service by the President, presents an opportunity for the IRS to invigorate its workforce with new skills and energy.

As part of our first periodic assessment of the IRS' actions to address its human capital challenge, we determined that the IRS is currently taking significant actions to address workforce issues, such as the creation of the IRS Commissioner's Workforce of Tomorrow Task Force, the creation of the Centralized Recruiting Office, and the incorporation of human capital strategies and high-level measures in the IRS 2009–2013 Strategic Plan. However, our reviews show that the IRS will need to address four key areas to make progress in addressing its human capital

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[2] The IRS' mission is to "provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all."
[3] See Appendix IV for additional trends regarding the IRS' workforce.

challenge. Namely, IRS executive management will need to 1) lead the agency to act as "one IRS" to strategically address its human capital issues, 2) balance the need for a more strategic focus on human capital issues with the need to continue addressing day-to-day issues that affect the IRS workforce, 3) evaluate the success of human capital initiatives and make adjustments as necessary, and 4) build upon the momentum gained through the IRS' recent emphasis on human capital issues.

For example, our previous reviews found:

- The IRS lacked comprehensive, agency-wide information on the skills of its employees in mission critical occupations.[4] This information is required to effectively assess current and future workforce needs.
- The IRS had not determined the overall leadership strength of each operating division nor developed the data necessary to obtain an agency-wide perspective about leadership strength and potential needs.
- The IRS did not have an agency-wide recruitment strategy that included a long-term plan for all functions involved in recruiting.
- Substantial progress had not been made in developing and implementing an agency-wide process to consistently and accurately project future human resource needs. In addition, projections were usually made only for the following fiscal year.

While the IRS is currently taking significant actions to focus on human capital issues, including actions to address our prior recommendations, there is much work ahead. Due to the long-term nature of human capital management and its importance to the accomplishment of the IRS' mission, we will continue to monitor the IRS' progress in addressing this challenge.

Response

We made no recommendations in this report. However, key IRS management officials reviewed it prior to issuance and agreed with the facts and conclusions presented.

Copies of this report are also being sent to the IRS managers affected by the report conclusions. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.

[4] Mission critical occupations are those positions essential to front-line enforcement or in direct support to front-line operations needed to meet the IRS goals.

Table of Contents

Abbreviations

GAO	Government Accountability Office
HCO	Human Capital Office
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration

Background

> ***To fill the projected shortage in leadership, the IRS has stated that it must recruit one manager a day for the next 10 years.***

The Internal Revenue Service (IRS) faces a loss of leadership and technical employees that could threaten its ability to provide American taxpayers the service they have come to expect. Today, the IRS has approximately 106,000 employees, including 9,100 managers.[1] However, more than half of the IRS' employees and managers have reached age 50, and 39 percent of IRS executives are already eligible for retirement. To fill the projected shortage in leadership, the IRS has stated that it must recruit one manager a day for the next 10 years. Furthermore, the rate at which new recruits in mission critical occupations are leaving the IRS during the first and second year of employment has increased since Fiscal Year 2005.[2] The pending loss of institutional knowledge and expertise at all levels and the challenge of retaining a highly skilled workforce increase the risk that the IRS may not be able to achieve its mission.[3]

The IRS' challenge of having the right people in the right place at the right time is made more difficult by many complex internal and external factors. Future IRS leaders will need to be more proactive, embrace change, and think on a larger scale. In addition, the work performed by IRS employees continually requires greater expertise as tax laws become more complex, manual systems used to support tax administration become computer based, and attempts by taxpayers and tax practitioners to evade compliance with the tax laws become more sophisticated. The IRS must also compete with other Government agencies and private industry for the same human resources, complicated by the fact that younger generations of employees move between jobs more frequently than employees in the past. Furthermore, budget constraints, legislative changes, and economic shifts can create unforeseen challenges for the IRS in addressing its long-term human capital[4] issues. However, the recent surge of college graduates' interest in Federal employment, resulting from unemployment in the private sector and a call to public service by the President, presents an opportunity for the IRS to invigorate its workforce with new skills and energy.

The IRS is not alone in its struggle to address strategic human capital management. In January 2009, the Government Accountability Office (GAO) continued to identify strategic

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[1] The Human Capital Office Strategic Planning and Measures Division provided data as of February 14, 2009.
[2] See Appendix IV for additional trends regarding the IRS' workforce.
[3] The IRS' mission is to "provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all."
[4] Human capital is used to describe the skills, abilities, and contributions of the employees in an agency.

human capital management as a high-risk area within the Federal Government.[5] The GAO designates areas as high risk due to their vulnerability to fraud, waste, abuse, and mismanagement, or the need for broad-based transformation of key government programs and operations. This area remains high risk because of a continuing need for a government-wide framework to advance human capital reform; therefore, agencies need to take actions to help address the complex challenges. Specifically, 1) top agency leaders must commit to addressing human capital and related organizational transformation issues; 2) human capital planning efforts need to be fully integrated with mission and critical program goals; 3) continued efforts are needed to improve recruiting, hiring, professional development, and retention strategies to ensure agencies have the talent they need; and 4) organizational cultures need to promote high performance and accountability, empower employees in setting and accomplishing program goals, and ensure diversity at all levels of the workforce.

The Treasury Inspector General for Tax Administration (TIGTA) has designated human capital as one of the top 10 major management challenges facing the IRS. Along with the TIGTA, the IRS Oversight Board[6] has expressed concern with the state of IRS human capital efforts. For example, the Board noted in its 2006 and 2007 annual reports that human capital is one of the IRS' greatest resources and biggest challenges and that it merits greater attention and increased focus by IRS management.

The IRS Commissioner recognizes the need for greater attention to human capital. The Commissioner established the Workforce of Tomorrow Task Force to address recruitment and retention issues so that the IRS has the necessary leadership and workforce in place to address future challenges. Additionally, the IRS 2009–2013 Strategic Plan contains human capital goals.

Responsibility for human capital within the IRS has evolved since the agency completed its reorganization in October 2000. Each business unit had embedded human resources offices that performed their own human capital functions. The IRS' Human Capital Office (HCO) was created in July 2003, with the appointment of the Chief Human Capital Officer. The HCO was positioned under the Deputy Commissioner for Operations Support, to provide human capital strategies and tools for recruiting, hiring, developing, retaining, and transitioning a highly skilled and high-performing workforce to support IRS mission accomplishments. However, the business units' embedded offices still exist under the Deputy Commissioner for Services and

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[5] *High Risk Series: An Update* (GAO-09-271, dated January 2009). The GAO's high-risk status reports are provided at the start of each new Congress and list areas within the Federal Government requiring further Congressional oversight and enactment of a series of government-wide reforms to address critical human capital challenges; strengthen financial management; improve information technology practices; and help promote a more effective, credible, and results-oriented government. See Appendix V for additional GAO reports we reviewed as part of this audit.

[6] The IRS Oversight Board is a nine-member independent body charged to oversee the IRS in its administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws.

Enforcement to help local managers with human resource issues. Appendix VII shows an organizational chart of the human capital offices.

Beginning in Fiscal Year 2008, the TIGTA developed a broad audit strategy for addressing human capital at an IRS agency-wide level using the Human Capital Assessment and Accountability Framework[7] as a guide. This review is the TIGTA's first periodic assessment of the IRS' progress in addressing its human capital challenge and includes our opinions based on multiple audits we have conducted.[8]

This review was conducted while the IRS was taking actions to address its human capital challenge, e.g., completing the work of a task force designed to make the IRS the best place to work in Government and ensure that in 5 years the IRS will have the leadership and workforce ready for the next 15 years. As a result, this report may not reflect the most current status of the IRS' activities to address its human capital challenge.

This review was performed at the Office of the Commissioner Headquarters in the Workforce Initiatives Division in Washington, D.C., and the IRS Human Capital Office Headquarters in Washington, D.C., during the period February through May 2009. We conducted this performance audit 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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[7] The Framework was established by the United States Office of Personnel Management. It provides consolidated guidance for agencies to transform human capital management and understand what is to be done, how it can be done, and how to gauge progress and results. It also presents the expectations that guide the agency's assessment of human capital efforts. This Framework consists of six standards for success or the results to be achieved. See Appendix VIII for more information.

[8] See Appendix VI for additional details on audit reports.

Results of Review

Focus Is Needed on Four Key Areas to Successfully Address the Human Capital Challenge

In May 2009, the IRS Commissioner testified that all of the IRS' efforts to deliver effective tax administration depend upon its workforce. The IRS must ensure it has talented capable leaders and employees for the foreseeable future with the right tools and resources they need to succeed. The IRS is currently taking significant actions to address some of its workforce issues; however, our reviews show that the IRS will need to address four key areas to make progress in addressing its human capital challenge. Namely, IRS executive management will need to: 1) lead the agency to act as "one IRS" to strategically address its human capital issues; 2) balance the need for a more strategic focus on human capital issues with the need to continue addressing day-to-day issues that affect the IRS workforce; 3) evaluate the success of human capital initiatives and make adjustments as necessary; and 4) build upon the momentum gained through the IRS' recent emphasis on human capital issues.

IRS executive management must lead the agency to act as "one IRS" to strategically address its human capital issues

The Office of Personnel Management's first critical success factor in its human capital standards for success is that agencies design a coherent framework of human capital policies, programs, and practices to achieve a shared vision integrated with the agency's strategic plan. This is vital because it can help integrate workforce planning efforts with other key management planning efforts. While the IRS had developed a Human Capital Strategic Plan and had procedures in place to ensure management from key areas within the IRS were involved in human capital decisions, we determined different segments of the IRS were operating independently or were not coordinating their human capital efforts. This could lead to disjointed efforts and an ineffective use of resources. In addition, human capital efforts were often focused solely on the short-term, instead of focusing on both the short-term and the long-term. For example:

> ***Human capital efforts have not always been strategic in nature, or coordinated.***

- The IRS did not have an agency-wide recruitment strategy that included a long-term plan for all functions involved in recruiting. Recruiting activities were based upon annual hiring plans instead of long-term workforce planning.

- The IRS lacked comprehensive, agency-wide information on the skills of its employees in mission critical occupations.[9] This information is required to effectively assess current and future workforce needs. The lack of employee skills information was primarily attributable to the absence of a corporate methodology for the uniform collection, compilation, and analyses of skills data across the agency to fully measure its workforce against future skills needs.
- The IRS did not have a clearly defined strategy for leadership succession with a well documented plan that specified key actions to be taken to implement the plan.
- Limited progress had been made in developing and implementing an agency-wide process to consistently and accurately project future human resource needs. The IRS HCO and the business units/functional offices had not fully implemented a strategic approach to workforce planning because corporate processes for creating and monitoring projections of retirements and other separations did not exist. Limited projections were usually made only for the following fiscal year and were primarily motivated by the need to obtain approval for the following year's budget to hire additional resources.

One reason for the lack of a consistent agency-wide focus on human capital issues in the past is that human capital responsibilities were decentralized within the IRS. Human capital responsibilities are still shared with personnel decentralized in the IRS' business units and functional offices. While steps have been taken, the IRS has not completely transitioned to a "one IRS" concept to ensure that all personnel responsible for human capital efforts work together to implement strategies and initiatives. Consequently, conflicting interests among the business units and functional offices resulted in disjointed efforts. The IRS also is not consistently thinking about long-term workforce planning. As a result, the IRS may miss the opportunity to shape its future workforce.

<u>Actions the IRS Is Taking in the Area</u>: While our prior audits have shown that the IRS has not always acted as "one IRS" or addressed its human capital issues strategically, we have noted that the IRS has recently taken actions to begin bringing about this change. For example:

- In September 2008, the IRS Commissioner created the Workforce of Tomorrow Task Force to address the human capital challenge. The Task Force was led from the Commissioner's office and included representation from the IRS' business units and functional offices, as well as the IRS HCO. The goal of this Task Force was to make the IRS the best place to work in the Federal Government and ensure that in 5 years the IRS

[9] Mission critical occupations are those positions essential to front-line enforcement or in direct support of front-line operations needed to meet the IRS goals.

will have the leadership and workforce ready for the next 15 years. The Task Force had six teams, and each was focused on a key aspect of the future IRS workforce.[10]

- In March 2009, the IRS created a Centralized Recruiting Office as a new division within the IRS HCO.
- In April 2009, the IRS 2009–2013 Strategic Plan was released with human capital goals. Although the IRS discussed human capital in its prior strategic plans, more emphasis has been placed on human capital as one of the Strategic Foundations in the current plan. The IRS incorporated four high-level human capital strategies in this plan to achieve its objective to make the IRS the best place to work in the Federal Government. These strategies are:
    - Attract and retain outstanding diverse talent throughout the IRS.
    - Increase employee engagement.
    - Identify, develop, invest in, and reward top-quality managers.
    - Reinforce a culture of diversity, teamwork, equal opportunity, and collaborative leadership.

In our opinion, these actions show intent by IRS executive management to address human capital issues. However, since human capital responsibilities remain decentralized, IRS executive management must continue to unite the agency under one vision to implement the strategies and initiatives recently developed.

The IRS must balance the need for a more strategic focus on human capital issues with the need to address day-to-day issues that affect the IRS workforce

While thinking and acting strategically on human capital issues is important, the IRS must also address day-to-day issues that affect the IRS workforce. For example, our audits identified areas that the IRS needed to address on a routine basis.

- The Internal Revenue Pay-for-Performance System was not adequately communicated to managers before it was implemented, causing opposition and decreasing morale. As a result, the IRS risked its ability to recruit, retain, and motivate highly skilled leaders.
- Additional controls were needed to address the potential widespread abuse of religious compensatory time. In March 2006, the IRS identified 42 employees with religious compensatory time balances between 101 and 305 hours, and 1 employee had a negative balance of 171 hours. We determined 18 (42 percent) of these 43 employees still had excessive balances (80 hours or more) as of February 2008. Additionally, about

[10] See Appendix IX for a listing of the Workforce of Tomorrow Task Force teams and a sample of reported accomplishments.

2.6 percent of all IRS employees had either a positive or negative religious compensatory time balance, including 86 employees that had balances we considered excessive.[11] Some Federal employees have abused this type of leave by using it for nonreligious purposes or by not routinely using it as required after it was earned in order to receive additional pay when they leave their jobs or retire.

- Control processes needed to be established to ensure that the IRS was not overpaying workers' compensation benefits. We questioned more than $1 million in charges, including benefits that were paid subsequent to Social Security Administration records indicating claimants had died. If costs are not properly managed and increase significantly, obligations could ultimately affect the amount of money the IRS has available to spend on enhancing the delivery of service to the taxpaying public.
- Additional training for all managers on administration of sick leave was needed. The lack of compensation for unused sick leave at retirement has contributed to the higher amount of sick leave used by employees in the Federal Employees Retirement System. The lack of compensation for unused sick leave can adversely affect morale, productivity, and the IRS' efforts to accomplish its mission.

<u>Actions the IRS Is Taking in the Area</u>: The IRS generally agreed with our recommendations and provided adequate corrective actions to address the issues we reported. For example, IRS management agreed to:

- Take actions to improve communication channels with employees before, during, and after implementing any new changes to the Internal Revenue Pay-for-Performance System. According to the IRS, this action was completed in October 2007.
- Revise IRS policies related to the use and management of religious compensatory time, and generate and monitor a semiannual report of excessive balances.
- Implement control processes for reviewing the accuracy of the workers' compensation claims costs in chargeback reports,[12] and seek reimbursement from the Department of Labor for benefits paid subsequent to claimants' deaths.

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[11] Generally, Office of Personnel Management guidance states that employees should be allowed to accumulate only the number of hours needed to make up for previous or anticipated absences from work for religious observances. IRS guidance further states that employees should not accumulate more religious compensatory time than they would be expected to use within 120 days. For the purposes of this prior review, we considered 80 hours or more as an excessive balance, which is 2 weeks, or one pay period.
[12] The Department of Labor Office of Workers' Compensation Programs is responsible for claim adjudication and payment of benefits. However, the Office of Workers' Compensation Programs bills Federal Government agencies for the amount of benefits paid on behalf of the agencies' injured employees. These "chargeback billings" cover the 12-month expense period of July 1 to June 30 each year, and agencies pay the expenses from their appropriations or operating revenues.

- Update sick leave policies, procedures, and training, and review negative sick leave balances and use the results to provide guidance for advancing sick leave and identifying abuse.

In our opinion, these actions adequately address the concerns raised in our prior reports. Additionally, the Workforce of Tomorrow Task Force reported that it developed employee recognition, career development, and other related strategies.[13] IRS management should continue addressing day-to-day human capital issues to keep IRS employees motivated and committed to their positions in serving taxpayers.

The IRS must evaluate the success of its human capital initiatives and make adjustments as necessary

Another key principle to effective strategic workforce planning is to evaluate and monitor (i.e., measure and adjust) an agency's progress toward its human capital goals. However, human capital measures that were developed in the past were not always linked to strategic goals and, therefore, did not allow IRS management to assess the progress of the agency's human capital efforts. For example:

The IRS has not always had the capability to measure the success of its human capital efforts.

- The IRS had not determined the overall leadership strength of each operating division, nor developed the data necessary to obtain an agency-wide perspective about leadership strength and potential needs. As a result, the IRS may not have the information it needs to make informed decisions on its future leaders, maintain operational continuity, and preserve public confidence in its ability to fulfill its mission.
- An agency-wide methodology was not in place to fully measure the IRS' workforce against current and future skills. Without this information, the IRS can not develop strategies to close anticipated competency or skills gaps. Therefore, it is missing the opportunity to reshape its workforce to meet future challenges, which could adversely affect the quality of service provided to taxpayers.
- Performance measures were not in place to measure the success of recruiting efforts. If future recruiting activities are not effective, the agency could be unable to meet hiring goals, keep up with attrition, or hire the most qualified candidates.
- Measures necessary to assess the accuracy of retirement and other separation projections did not exist. As a result, the IRS' ability to anticipate workforce changes that potentially involve the loss of key competencies was limited.

[13] See Appendix IX for examples of accomplishments reported by the Workforce of Tomorrow Task Force.

Because of the complexity of the IRS' human capital challenge, budgetary constraints, and the need to replace a large number of employees in the near future, IRS management can not afford to spend time and resources on actions that are not productive. An evaluation mechanism is necessary to determine if strategies are productive and, if not, to adjust the strategies as soon as possible to improve results.

Actions the IRS Is Taking in the Area: The IRS developed three high-level performance measures that align with two of the human capital strategies in its current strategic plan. The three performance measures (employee engagement, effectiveness of recruitment, and the new hire retention rate) will be used to track the progress of increasing employee engagement and attracting and retaining outstanding diverse talent throughout the IRS.

In our opinion, these measures will provide some indication about the IRS' effectiveness in recruiting and retaining employees as a whole. However, IRS management must develop detailed, lower-level measures. These measures should be designed to signal IRS management as soon as possible as to whether initiatives are achieving their intended results, so that any necessary adjustments can be made to improve results.

The IRS must build upon the momentum gained through its recent emphasis on human capital issues

As noted in previous sections of this report, the IRS has recently increased its focus on human capital issues. This includes the IRS Commissioner creating the Workforce of Tomorrow Task Force to make an immediate impact on the IRS' progress in addressing its human capital challenge. In addition, the IRS 2009–2013 Strategic Plan was recently issued and incorporated human capital strategies and high-level measures.

Successfully addressing the human capital challenge will be a long-term effort, and much work lies ahead.

Notwithstanding these accomplishments, there is much work ahead. For example, IRS officials advised us that they were planning to develop detailed measures and plans in the future to support the high-level strategies and measures released in the IRS 2009–2013 Strategic Plan. In addition, IRS officials stated that they will release a report later in Fiscal Year 2009 detailing initiatives and strategies developed by the Workforce of Tomorrow Task Force. That report will be turned over to the IRS HCO and other business units and functional offices within the IRS for implementation.

As the Workforce of Tomorrow Task Force disbands and the IRS 2009–2013 Strategic Plan begins to be carried out, it will be important that the cross-functional efforts recently demonstrated in discussing and acting upon human capital issues is not lost. In our opinion, the IRS has taken many actions to address its human capital challenge. The IRS' success in addressing its human capital challenge will depend upon its ability to sustain the momentum it has gained and build upon its recent human capital actions.

Because we have made recommendations in our prior reports, we are not making recommendations in this periodic assessment. However, due to the importance of human capital management to the accomplishment of the IRS' mission and the long-term nature of the human capital challenge, we will continue to monitor the IRS' progress in addressing this challenge.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess the IRS' actions in addressing its human capital[1] challenge. Our assessment was based upon prior TIGTA and GAO reports and took into account current efforts underway at the IRS. To accomplish this objective, we:

I. Determined what recent observations were made about the IRS' and the Federal Government's progress in addressing the human capital challenge.

A. Reviewed prior TIGTA and GAO audit reports from July 2007 to April 2009 that address human capital processes within the Human Capital Assessment and Accountability Framework[2] and identified actions taken and planned by IRS management.

B. Performed research (i.e., GAO reports, news articles, and other Federal agency's audit reports from Fiscal Year 2008 to February 2009) and determined whether other Federal agencies made similar progress and/or had similar issues in meeting their human capital challenges.

C. Reviewed IRS Oversight Board reports and other documents from January 2007 through March 2009 regarding the Board's observations about the IRS' human capital issues.

II. Identified actions the IRS took in Fiscal Year 2009 to address its human capital challenge and any measures related to human capital.

A. Interviewed IRS management to obtain the current status of IRS HCO actions, plans, and goals for addressing the human capital challenge.

B. Determined what actions and plans the IRS Commissioner's Workforce of Tomorrow Task Force took and developed to address the agency's human capital challenge.

C. Obtained and reviewed the IRS' current data, projections, and goals related to its human capital.

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[1] Human capital is used to describe the skills, abilities, and contributions of the employees in an agency.
[2] The Framework was established by the Unites States Office of Personnel Management. The Framework provides consolidated guidance for agencies to transform human capital management and understand what is to be done, how it can be done, and how to gauge progress and results. It also presents the expectations that guide the agency's assessment of human capital efforts. This Framework consists of six standards for success or the results to be achieved: strategic alignment, workforce planning and deployment, leadership and knowledge management, results-oriented performance culture, talent, and accountability. See Appendix VIII for more information.

III. Identified overarching issues the IRS must focus upon to effectively address its human capital challenge.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. While part of this review was limited to reviewing and assessing the results of prior audits, part of our review involved determining how the IRS was currently addressing its human capital challenge and whether there were any overarching issues the IRS must focus upon. For this portion of the audit, we determined that the following internal controls were relevant to our audit objectives: the Human Capital Assessment and Accountability Framework, the IRS 2009–2013 Strategic Plan, the Workforce of Tomorrow Task Force activities and reporting, and the development of human capital measures. We evaluated these controls by interviewing management and reviewing documentation.

Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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Appendix IV

Trends Regarding the Internal Revenue Service Workforce

As part of our ongoing monitoring and reporting of the IRS' efforts to address its human capital[1] challenge, we have collected workforce trends in the areas of retirement eligibility, new recruit attrition rates, employee job satisfaction, and employee engagement. Since the accuracy of these IRS-provided statistics did not affect the accomplishment of our audit objective, we did not verify their accuracy.

Retirement Eligibility for All Employees and Managers

Eighteen percent of the total IRS workforce will be eligible to retire by October 2010. As Figure 1 shows, through September 2009 more than 15,000 IRS employees will be eligible to retire, with approximately an additional 4,000 employees reaching retirement age each year for the next 5 years.

Figure 1: IRS Employees Eligible to Retire

Total Workforce	Fiscal Year 2009[2]	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
105,622	15,070	3,941	3,970	3,935	4,261	4,473

Source: Data as of February 14, 2009, provided by the IRS HCO Strategic Planning and Measures Division.

Figure 1 includes all IRS employees (including managers). Figure 2 provides a breakout of just the number of managers reaching retirement age each year for the next 5 years.

Figure 2 shows a large number of executives and managers are eligible to retire this fiscal year, and an average of 488 additional executives and managers will become retirement eligible in each of the next 5 fiscal years. An alarming percentage of IRS leadership responsible for setting policy and providing direction for the agency will be eligible for retirement by Fiscal Year 2014. Currently, 104 (36 percent) of 291 IRS executives are eligible to retire this fiscal year, with an additional 91 (31 percent) of 291 becoming eligible over the next 5 years. Overall, the IRS could lose 195 (67 percent) of its executives by Fiscal Year 2014.

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[1] Human capital is used to describe the skills, abilities, and contributions of the employees in an agency.
[2] Totals in the "Fiscal Year 2009" column include employees who have or will be eligible for optional retirement (a combination of age and years of service) by September 30, 2009. Subsequent fiscal year column totals include only managers and employees who will be eligible in the subsequent fiscal years listed (October 1–September 30).

Figure 2: IRS Managers Eligible to Retire

Management Level	Total Managers	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Executives	291	104	24	9	20	19	19
Senior Managers	1,579	422	100	107	102	119	99
Department Managers	382	53	14	23	20	16	25
Front-Line Managers	6,848	1,369	365	316	336	329	378
Cumulative Totals	**9,100**	**1,948**	**2,451**	**2,906**	**3,384**	**3,867**	**4,388**
Annual Totals[3]			**503**	**455**	**478**	**483**	**521**

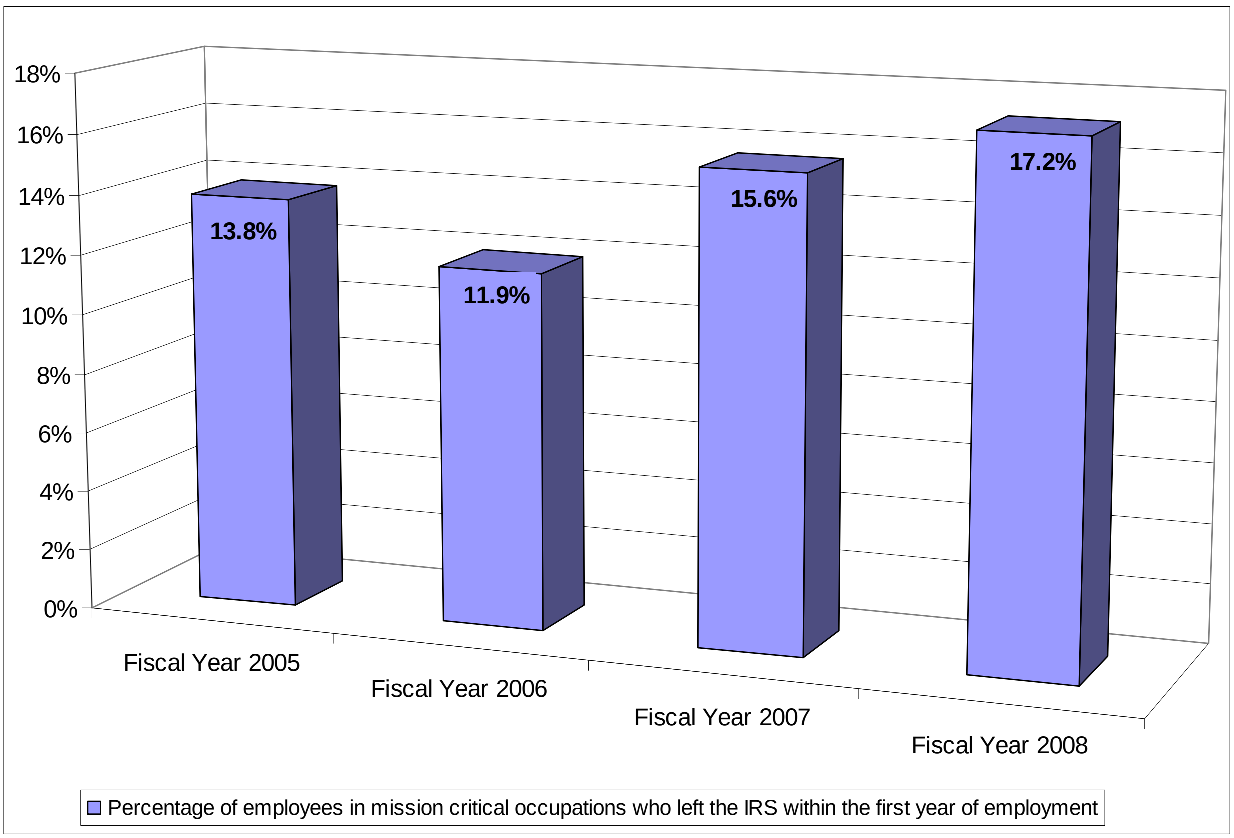
Source: Data as of February 14, 2009, provided by the IRS HCO Strategic Planning and Measures Division.

[3] To determine the annual totals of additional employees eligible to retire during each fiscal year, we computed the net change in the cumulative totals from one year to the next.

New Recruit Attrition Rates

Due to the opportunity the IRS has to reshape its workforce during an era where many baby boomers[4] are eligible to retire, it will be important for the IRS to observe and react to how many new recruits leave the IRS within their first few years of employment. As noted in Figures 3 and 4, new employees are generally leaving the IRS at a quicker rate than a few years ago.

Figure 3: IRS New Recruit First Year Attrition Rates (Fiscal Years 2005 Through 2008)

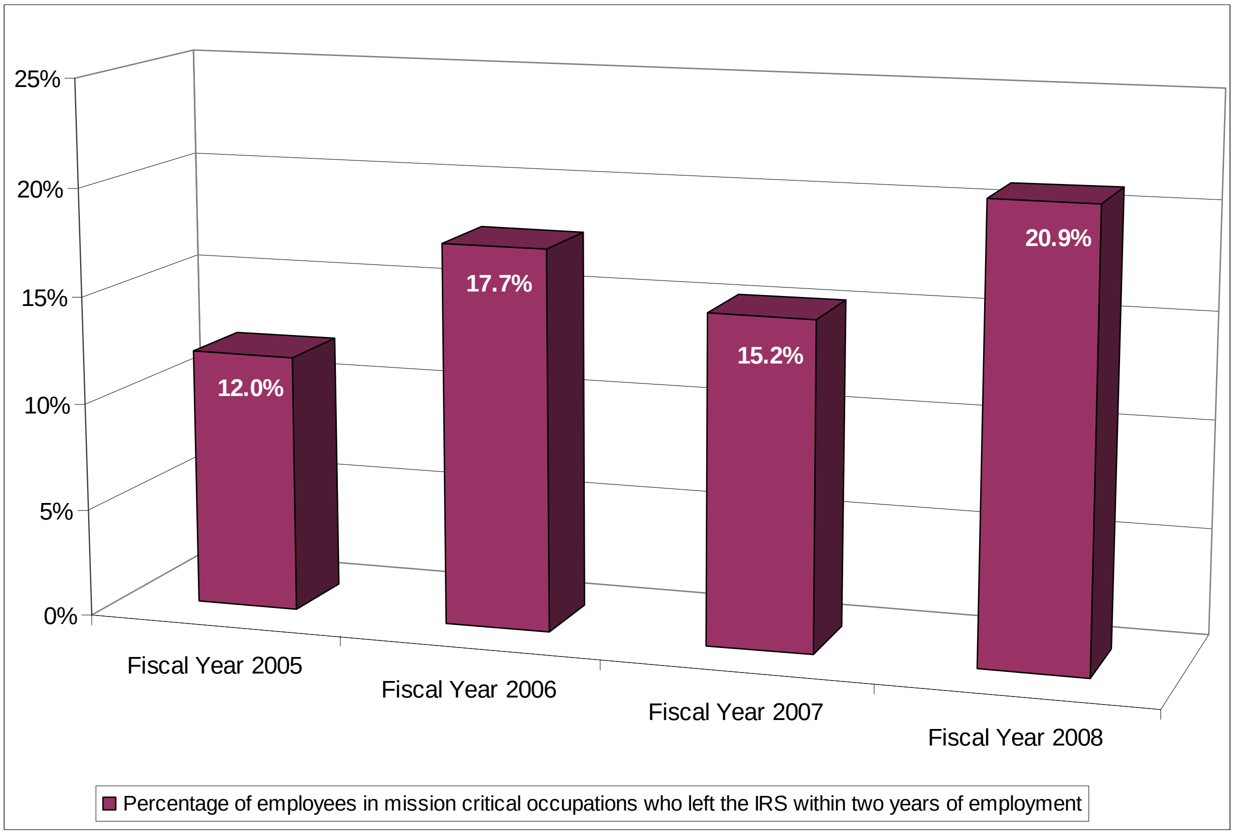


Source: IRS Human Capital Office Business Performance Review Report, 4th Quarter, Fiscal Year 2008.

As shown in Figure 3, in Fiscal Years 2007 and 2008, over 15 percent of new recruits left the IRS within the first year of employment.

[4] Baby boomers are persons born during a baby boom, especially one born in the United States between 1946 and 1965.

Figure 4: IRS New Recruit Second Year Attrition Rates (Fiscal Years 2005 Through 2008)



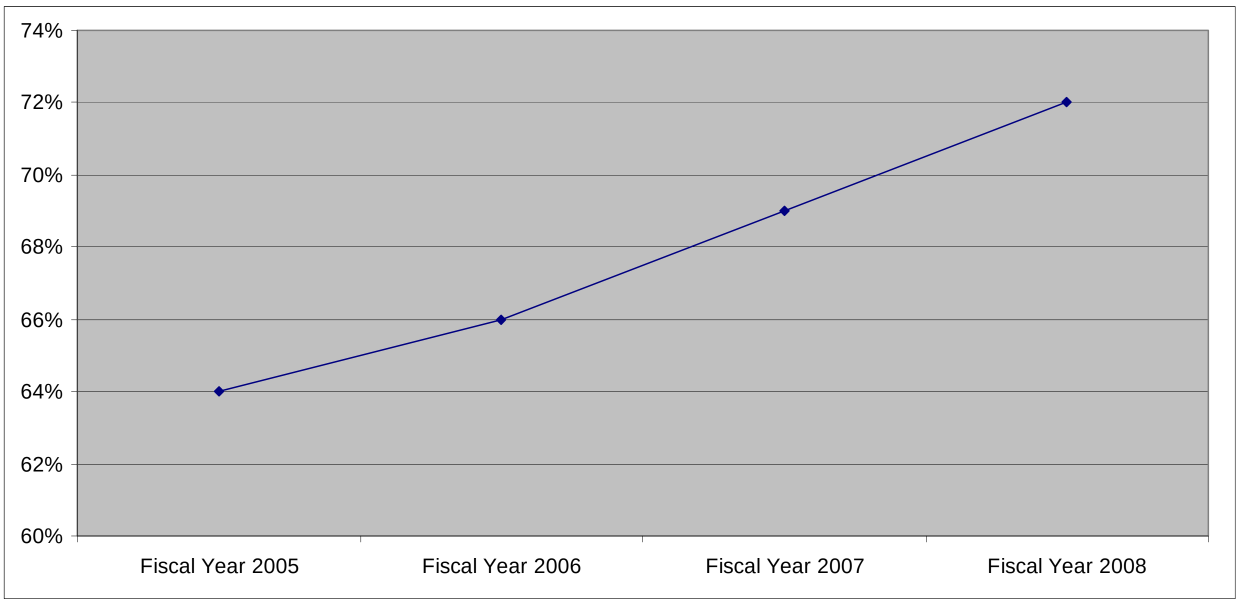
Source: IRS Human Capital Office Business Performance Review Report, 4th Quarter, Fiscal Year 2008.

As shown in Figure 4, about 21 percent of the employees hired in Fiscal Year 2006 left the IRS by Fiscal Year 2008.

Employee Job Satisfaction

Job satisfaction is a key statistic. Generally, the more satisfied employees are with their jobs, the more likely they are to perform well. As noted in Figure 5, job satisfaction among IRS employees has been increasing over the last several fiscal years.

Figure 5: IRS Job Satisfaction Rates (Fiscal Years 2005 Through 2008)

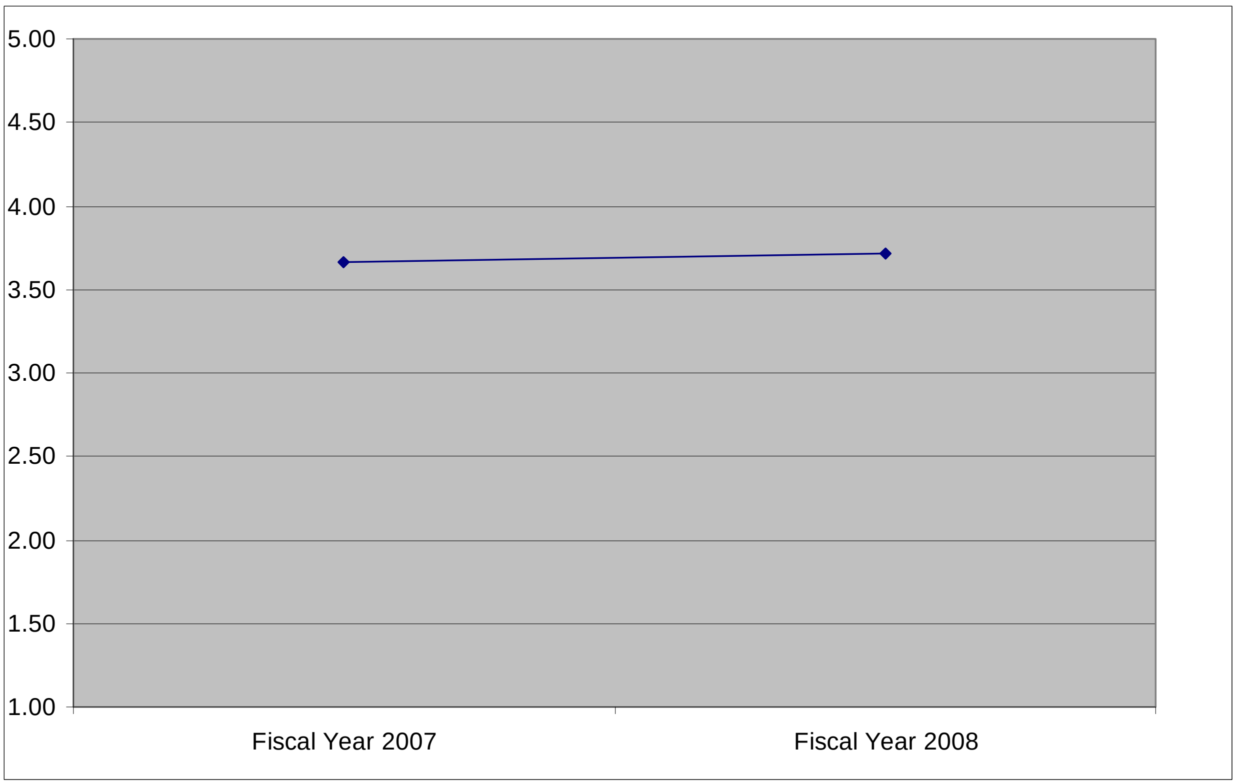


Source: IRS Human Capital Office Business Performance Review Report, 4th Quarter, Fiscal Year 2008.

Employee Engagement

Employee engagement is the degree of employees' motivation, commitment, and involvement in the mission of the organization. It is measured on a scale of 1 to 5. IRS management began measuring employee engagement in Fiscal Year 2007. As noted in Figure 6, employee engagement increased from 3.66 to 3.72 from Fiscal Year 2007 to Fiscal Year 2008.

Figure 6: IRS Employee Engagement Scores (Fiscal Years 2007 and 2008)



Source: IRS Human Capital Office Business Performance Review Report, 4th Quarter Fiscal Year 2008.

Appendix V

Government Accountability Office Human Capital Reports Researched As Part of This Review

The following 23 GAO reports were researched as part of this audit to determine whether the IRS' human capital issues were similar to those experienced by other agencies. As noted in the following reports, Strategic Human Capital Management is a risk throughout the Federal Government.

Office of Personnel Management: Opportunities Exist to Build on Recent Progress in Internal Human Capital Capacity (GAO-08-11, dated October 2007).

United States Government Accountability Office: Making Human Capital Transformation a Reality: Lessons Learned From GAO's Experience (GAO-08-299CG, dated November 2007).

United States Government Accountability Office: Human Capital Initiatives and Additional Legislative Authorities (GAO-08-573T, dated March 2008).

Department of Homeland Security: Progress Made in Implementation of Management Functions, but More Work Remains (GAO-08-646T, dated April 2008).

Older Workers: Federal Agencies Face Challenges, but Have Opportunities to Hire and Retain Experienced Employees (GAO-08-630T, dated April 2008).

Centers for Disease Control and Prevention: Human Capital Planning Has Improved, but Strategic View of Contractor Workforce Is Needed (GAO-08-582, dated May 2008).

Human Capital: Transforming Federal Recruiting and Hiring Efforts (GAO-08-762T, dated May 2008).

Human Capital: Corps of Engineers Needs to Update Its Workforce Planning Process to More Effectively Address Its Current and Future Workforce Needs (GAO-08-596, dated May 2008).

Social Security Administration Field Offices: Reduced Workforce Faces Challenges as Baby Boomers Retire (GAO-08-737T, dated May 2008).

Equal Employment Opportunity Commission: Sharing Promising Practices and Fully Implementing Strategic Human Capital Planning Can Improve Management of Growing Workload (GAO-08-589, dated June 2008).

Pension Benefit Guaranty Corporation: A More Strategic Approach Could Improve Human Capital Management (GAO-08-624, dated June 2008).

Human Capital: Selected Agencies Have Implemented Key Features of Their Senior Executive Performance-Based Pay Systems, but Refinements Are Needed (GAO-08-1019T, dated July 2008).

United States Capitol Police: Progress Made in Addressing Prior GAO Recommendations on Administrative and Management Operations (GAO-08-1000T, dated July 2008).

Human Capital: Department of Defense Needs to Improve Implementation of and Address Employee Concerns About Its National Security Personnel System (GAO-08-773, dated September 2008).

Pension Benefit Guaranty Corporation: Improvements Needed to Address Financial and Management Challenges (GAO-08-1162T, dated September 2008).

Secure Border Initiative: Observations on Deployment Challenges (GAO-08-1141T, dated September 2008).

United States Agency for International Development Acquisition and Assistance: Actions Needed to Develop and Implement a Strategic Workforce Plan (GAO-08-1059, dated September 2008).

United States Postal Service: New Delivery Performance Measures Could Enhance Managers' Pay for Performance Program (GAO-08-996, dated September 2008).

Department of Homeland Security: A Strategic Approach Is Needed to Better Ensure The Acquisition Workforce Can Meet Mission Needs (GAO-09-30, dated November 2008).

Results-Oriented Management: Opportunities Exist for Refining the Oversight and Implementation of the Senior Executive Performance-Based Pay System (GAO-09-82, dated November 2008).

Department of Veterans Affairs Vocational Rehabilitation and Employment: Better Incentives, Workforce Planning, and Performance Reporting Could Improve Program (GAO-09-34, dated January 2009).

Human Capital: Opportunities Exist to Build on Recent Progress to Strengthen Department of Defense's Civilian Human Capital Strategic Plan (GAO-09-235, dated February 2009).

Human Capital: Improved Implementation of Safeguards and an Action Plan to Address Employee Concerns Could Increase Employee Acceptance of the National Security Personnel System (GAO-09-464T, dated April 2009).

Appendix VI

Treasury Inspector General for Tax Administration Human Capital Reports Considered As Part of This Review

The following eight TIGTA audit reports were considered when forming our opinions on the progress of the IRS in addressing its human capital challenge.

The Internal Revenue Pay-for-Performance System May Not Support Initiatives to Recruit, Retain, and Motivate Future Leaders (Reference Number 2007-10-106, dated July 3, 2007).

A More Strategic Approach Could Enhance the Workers' Compensation Program Return-to-Work Efforts (Reference Number 2008-30-056, dated March 12, 2008).

Lack of Compensation for Unused Sick Leave at Retirement Has Contributed to Higher Use by Employees in the Federal Employees Retirement System (Reference Number 2008-30-093, dated April 24, 2008).

Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders (Reference Number 2008-10-132, dated June 26, 2008).

A More Strategic and Consistent Approach to Estimating Retirements and Other Separations Is Needed to Better Plan for Future Human Resource Needs (Reference Number 2008-10-169, dated August 29, 2008).

An Agency-Wide Recruitment Strategy and Effective Performance Measures Are Needed to Address Future Recruiting Challenges (Reference Number 2009-10-025, dated February 23, 2009).

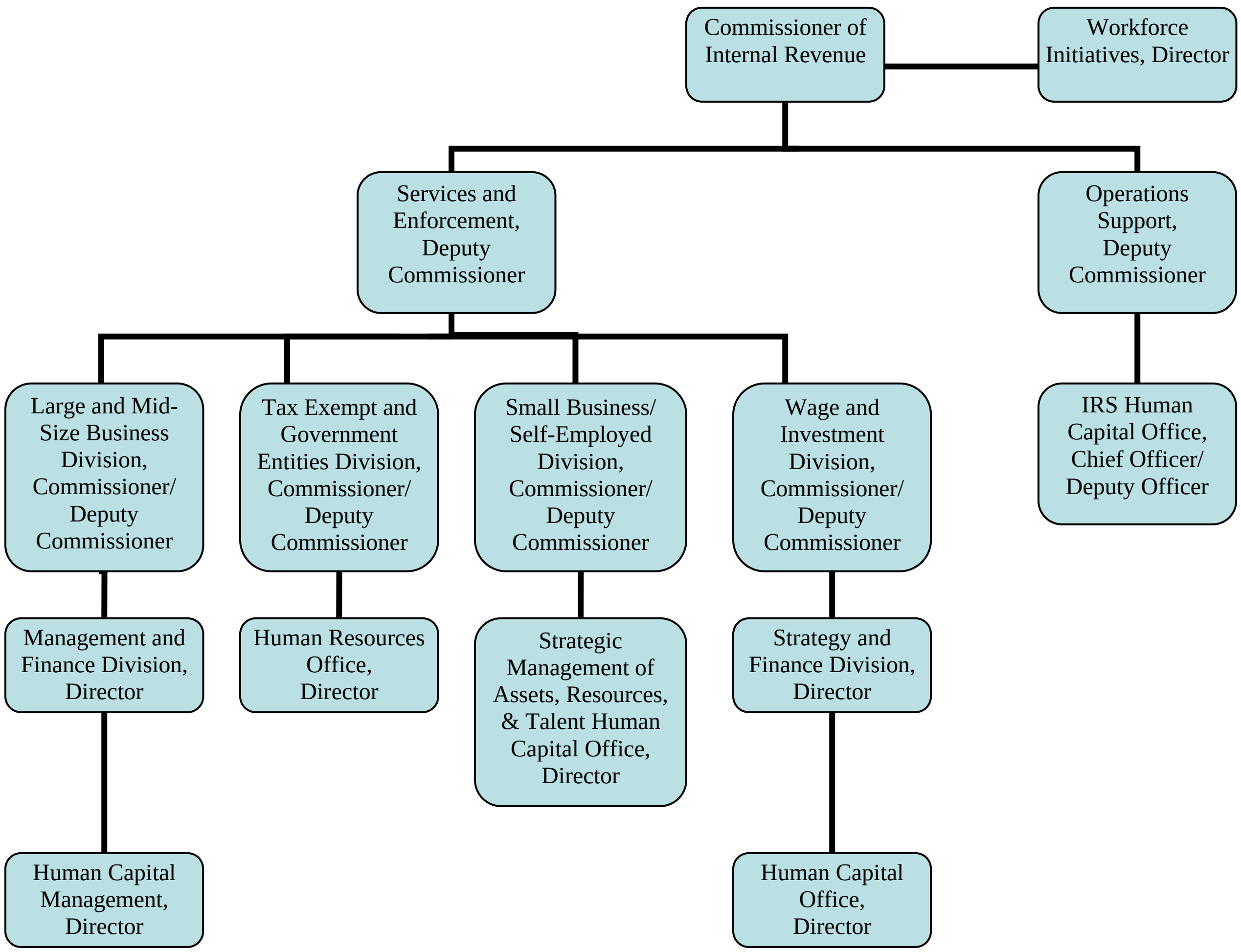
Workforce Planning Efforts Are Hindered by a Lack of Comprehensive Information on Employee Skills Levels (Reference Number 2009-10-041, dated February 24, 2009).

To Prevent the Possible Widespread Abuse of Religious Compensatory Time, Additional Controls Are Needed (Reference Number 2009-IE-R002, dated February 27, 2009).

Appendix VII

Internal Revenue Service Human Capital Office and Embedded Offices Organizational Structure

Figure 1: Embedded Human Capital Offices Within the Business Units and the IRS Human Capital Office Organizational Chart



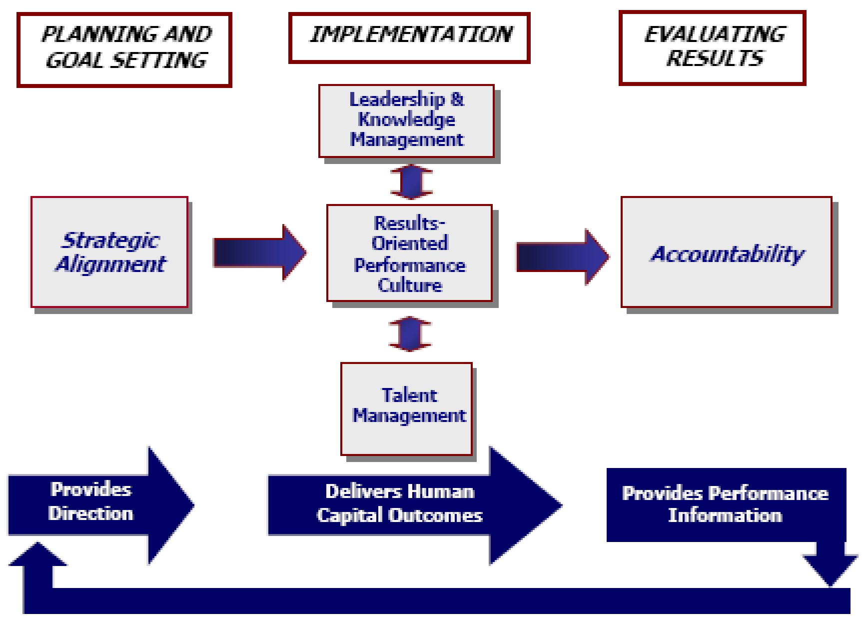
Source: IRS Intranet web site. Various organizational charts were combined to reflect only the human capital offices.

Appendix VIII

The Office of Personnel Management's Human Capital Assessment and Accountability Framework

The United States Office of Personnel Management established a Human Capital Assessment and Accountability Framework to assist agencies in creating a citizen-centered, results-oriented, market-based organization where employees possess the needed competencies and are deployed strategically across the organization to enable agencies to fulfill their mission. This Framework consists of five human capital systems and six Standards for Success that together provide a consistent, comprehensive representation of human capital management for the Federal Government. Figure 1 is a visual representation of the five human capital systems outlined within the Human Capital Assessment and Accountability Framework.

Figure 1: Five Human Capital Systems



Source: *Human Capital Assessment and Accountability Framework.*

Figure 2 shows the six Standards for Success outlined within the Human Capital Assessment and Accountability Framework.

Figure 2: Six Human Capital Standards for Success

Human Capital Standards for Success					
Strategic Alignment	Workforce Planning and Deployment	Leadership and Knowledge Management	Results-Oriented Performance Culture	Talent	Accountability

Source: Human Capital Assessment and Accountability Framework.

Appendix IX

Workforce of Tomorrow Task Force Teams and Sample Accomplishments

The IRS Commissioner formed the Workforce of Tomorrow Task Force in September 2008 to address recruitment and retention issues so that the IRS has the necessary leadership and workforce in place to address future challenges. As our fieldwork was ending, the Task Force was preparing a report that would detail initiatives and strategies it developed that would be turned over to the IRS HCO and other functional offices within the IRS for implementation.

Workforce of Tomorrow Task Force Teams

Figure 1 provides the names of the six Workforce of Tomorrow Task Force teams, as well as their areas of focus.

Figure 1: Workforce of Tomorrow Task Force Teams and Focus Areas

Task Force Team	Area of Focus
Valuing and Retaining Our People	Ensuring meaningful recognition, employee development, and strategies to retain the best talent
Enhancing the Role of Managers	Developing strategies to assist managers in mentoring, leading, and developing colleagues while addressing administrative burden
Attracting the Best	Developing enhanced recruiting and career progression strategies
Streamlining the Hiring Process	Improving processes, automation, and policies to reduce the time it takes to fill positions
Growing Future Leaders	Enhancing the leadership succession planning processes and development opportunities
Creating a Dynamic People Strategy	Building a real-time, flexible workforce plan that takes into account IRS business objectives and internal/external trends

Source: Executive briefing provided by the IRS.

Examples of Workforce of Tomorrow Task Force Accomplishments

Figure 2 provides a listing of examples of accomplishments from the Workforce of Tomorrow Task Force, as reported by the Task Force.[1]

Figure 2: Sample of Workforce of Tomorrow Task Force Accomplishments

Workforce of Tomorrow Task Force Team	Sample Accomplishments
Valuing and Retaining Our People	Creating a Recognition Strategy, Career Development Strategy, and Sense of Community Strategy
Enhancing the Role of Managers	Creating a Burden Reduction Strategy and a Prestige Strategy
Attracting the Best	Creating and standing up a centralized recruiting office and creating a corporate recruiting strategy with local support and involvement
Streamlining the Hiring Process	Streamlining the five-step hiring process and reducing the need for applicants to submit multiple applications for certain positions
Growing Future Leaders	Piloting an accelerated readiness program and analyzing the IRS' mobility policy
Creating a Dynamic People Strategy	Implementing an IRS-wide attrition model and developing an IRS-wide workforce planning tool

Source: Workforce of Tomorrow Task Force status report dated June 15, 2009, from the Workforce of Tomorrow Task Force web site.

[1] Since implementation of many of the strategies and initiatives developed by the Workforce of Tomorrow Task Force was still underway as our audit was ending, we did not validate the Task Force's accomplishments.