A More Strategic and Consistent Approach to Estimating Retirements and Other Separations Is Needed to Better Plan for Future Human Resource Needs

August 29, 2008

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 29, 2008

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 – A More Strategic and Consistent Approach to Estimating Retirements and Other Separations Is Needed to Better Plan for Future Human Resource Needs (Audit # 200810026)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) is effectively projecting its future human resource needs. This review is one of several audits assessing how the IRS is addressing the Human Capital[1] management challenge.

Impact on the Taxpayer

The IRS is facing a major challenge with a large number of retirements expected over the next several years, which threatens workforce and leadership continuity. In addition, business units have noted that they have not always been able to replace all of the employees that they are losing through retirement and other forms of attrition. While the IRS has established some key parts of a workforce planning foundation, its Human Capital Office (HCO) and business units/functional offices have not made substantial progress in developing and implementing an agency-wide process that will consistently and accurately project future human resource needs. If accurate projections are not made, the IRS might struggle to fill unforeseen vacancies, which could affect overall service to taxpayers.

[1] The term "human capital" is used to describe the skills, abilities, and contributions of the people in an agency.

Synopsis

The HCO was established in 2004 to provide human capital strategies and tools for recruiting, hiring, developing, retaining, and transitioning a highly skilled and high-performing workforce to support the IRS' mission accomplishments. Since its formation, the HCO has gathered and interpreted workforce data and made detailed projections of how many employees might leave the IRS due to retirement or other reasons (collectively, these are referred to as separations). However, while the IRS has established some key parts of a workforce planning foundation, the HCO and the business units/functional offices have not developed and implemented an agency-wide approach for consistently and accurately projecting future human resource needs. This has limited the IRS' ability to anticipate change, provide methods for addressing present and anticipated workforce issues, and provide taxpayers with high-quality services on a daily basis.

IRS business units and functional offices have been developing their own separation projections because they determined that HCO estimates were based on old data and were of limited value. These projections were usually made only for the following fiscal year and were primarily motivated by the need to obtain budget approval to hire additional resources. Because a significant number of employees with key skills and competencies in different locations, occupations, and grade levels could leave the IRS, longer term separation projections must be developed. These longer term projections could be used to develop strategies for replacing the loss of institutional memory with the skills and competencies needed for the future.

However, developing reliable, longer term projections will be difficult because written guidelines that delineate roles and responsibilities for projecting separations are out of date, and there is no agency-wide process in place to improve upon current projections or to communicate hiring changes that could affect future projections. In addition, measures necessary to assess the accuracy of separation projections do not exist. As a result, the IRS' ability to anticipate workforce changes that potentially involve the loss of key competencies is limited.

After we informed IRS HCO officials about our initial results, the HCO provided a draft version of a document entitled *IRS Corporate Workforce Planning Framework Design*, with segments completed in November 2007 and February 2008. The *Framework* was created because the HCO had identified a need to improve the IRS' corporate workforce planning capabilities, which include making separation projections. Within the *Framework*, the HCO lists many of the same concerns identified during our audit.

While we agree with many of the findings and recommendations in the draft *Framework*, we believe that the key to successfully implementing a corporate workforce planning framework will be the ability of the HCO and the business units/functional offices to reach consensus on implementing the concepts included in the proposed planning *Framework*.

Recommendation

We recommended that as part of any planned improvements to the workforce planning process, the Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement establish a more collaborative, integrative process to implement agency-wide roles and responsibilities for effectively creating, refining, and using separation projections.

We recommended that in determining roles and responsibilities, the Deputy Commissioners should revise written guidance and develop agency-wide templates for more consistent separation projections, conduct analyses and develop measures to identify differences between projected and actual separations, and develop a consistent method to communicate hiring changes that could affect future projections.

Response

IRS officials agreed with our recommendation. The IRS Human Capital Officer plans to partner with the Human Capital community and the Office of Program Evaluation Review and Analysis to revise Internal Revenue Manual guidance, existing Support Agreements, and the roles and responsibilities of the various partners (and their workforce planning processes and procedures where necessary) to ensure more consistency regarding separation projections. The IRS Human Capital Officer also plans to work with representatives of each IRS business unit to develop a comprehensive, agency-wide workforce planning process (including appropriate measures) to better enable the IRS to analyze its collective workforce needs and make accurate separation projections (including migrations between the business units). Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being forwarded to IRS managers affected by the report recommendation. Please contact me at (202) 622–6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622–8500.

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Abbreviations

HCO	Human Capital Office
IRS	Internal Revenue Service

Background

The Human Capital Office (HCO) was established in 2004 to provide human capital[1] strategies and tools for recruiting, hiring, developing, retaining, and transitioning a highly skilled and high-performing workforce to support the IRS' mission accomplishments. The HCO is responsible for developing and implementing technology-enabled systems and processes to improve human capital planning and management and to empower employees to achieve their potential. Prior to 2004, these activities were handled in a more decentralized manner by several organizations within the IRS business units/functional offices.

The IRS Human Capital Strategic Plan for Fiscal Years 2005-2009 sets forth a 5-year human capital strategy for ensuring that the IRS builds and maintains the workforce needed to carry out its mission in an efficient, effective, and productive manner. The Plan notes that the IRS is facing a major challenge with a large number of retirements expected over the next several years, which threatens workforce and leadership continuity. The Plan also mentions that another factor to consider when determining hiring needs is employee losses due to migration between business units. In addition, business units have noted that they have not always been able to replace all of the employees that they are losing through retirement and other forms of attrition.

Due to the extent of upcoming retirements, migrations between business units, and other forms of attrition (collectively referred to as separations), the IRS contracted with an outside vendor that issued a comprehensive report in March 2006 that included analyses comparing the current workforce with a 5-year staffing forecast. Figure 1 shows IRS staffing projections for Fiscal Years 2006 through 2010.

A March 2006 analysis prepared by a private vendor indicated that 10 percent of the IRS workforce will be eligible to retire each year, starting in 2006 and continuing through 2010.

[1] The term "human capital" is used to describe the skills, abilities, and contributions of the people in an agency.

Figure 1: Agency-wide 5-Year Staffing Forecast[2]

Fiscal Year	Total Employees	Estimated Number of Employees Eligible to Retire	Percentage of Total Employees Eligible to Retire	Estimated Number of Employees Expected to Retire	Percentage of Total Employees Expected to Retire
2006	97,284	10,297	10.6%	4,932	5.1%
2007	97,647	10,426	10.7%	5,740	5.9%
2008	99,352	10,551	10.6%	6,645	6.7%
2009	99,944	10,668	10.7%	7,494	7.5%
2010	100,094	10,758	10.7%	8,315	8.3%

Source: IRS HCO Workforce Plan, March 2006.[3]

As shown in Figure 1, the number of employees projected to retire is expected to steadily increase through 2010. In addition, the IRS Human Capital Strategic Plan indicated that nearly 4,000 employees in mission critical occupations[4] migrated from 1 business unit to another between October 2001 and May 2004.

To assist the IRS and other Federal Government agencies in effectively planning for significant human capital changes, the Office of Personnel Management published the Human Capital Assessment and Accountability Framework in Calendar Year 2002.[5] The Framework was developed to educate agencies on human capital best practices. One of the critical success factors identified in the Framework is the need for agencies to develop an explicit workforce planning strategy that will identify current and future human capital needs, including the size of the workforce, its deployment across the organization, and the competencies needed for the agency to fulfill its mission.

This audit was conducted while changes were being made to the IRS' workforce planning process. Any changes that have occurred since we concluded our analyses in April 2008 are not reflected in this report. As a result, this report might not reflect the most current status of the IRS' workforce planning efforts. The review is part of the Treasury Inspector General for Tax Administration Fiscal Year 2008 Annual Audit Plan coverage under the major management

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[2] For Fiscal Years 2006 – 2010, the numbers and percentages of employees both eligible and projected to retire were based on an average of actual retirements during Fiscal Years 2001 – 2005.
[3] We did not verify the accuracy of the information provided by the HCO because its accuracy did not affect the accomplishment of our audit objective.
[4] Mission critical occupations are those positions critical to front-line enforcement; they provide direct support to front-line operations needed to meet IRS goals.
[5] The Office of Personnel Management established the Human Capital and Accountability Framework following passage of the Chief Human Capital Officer Act of 2002, Pub. L. No. 107-296, tit. 13, 116 Stat. 2135, 2287 (2002).

challenge of Human Capital and is one of several audits planned to assess how the IRS is addressing the Human Capital management challenge.

This review was performed during the period December 2007 through April 2008 at the HCO Planning and Measures Division in Washington, D.C., and via teleconference with staff from six business units and functional offices (the Small Business/Self-Employed Division, Wage and Investment Division, Large and Mid-Size Business Division, Tax Exempt and Government Entities Division, Criminal Investigation Division, and Modernization and Information Technology Services organization). 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 finding and conclusions. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

Improvements to Communication and Guidance Are Needed to Consistently and Accurately Estimate Employee Separations

Since its establishment in 2004, the HCO has gathered and interpreted workforce data and made detailed projections of how many employees might leave the IRS due to various types of separations. While the IRS has established some key parts of a workforce planning foundation and a new workforce planning framework is being considered, the HCO and the IRS business units/functional offices have not developed and implemented an agency-wide approach. This has limited the IRS' ability to anticipate change, provide methods for addressing present and anticipated workforce issues, and provide taxpayers with high-quality services on a daily basis. Implementing an agency-wide approach would position the IRS to more consistently and accurately project its future human resource needs and address present and anticipated workforce issues.

The HCO has established key parts of a foundation for performing workforce planning and analyses

The IRS, under the leadership of the HCO, has initiated several actions to improve its workforce planning capability. For example:

- The IRS developed a Human Capital Strategic Plan for Fiscal Years 2005-2009, which includes an analysis of the gap between human capital as it currently exists within the IRS and human capital as it is desired in the future.
- A private vendor prepared a March 2006 Workforce Plan that compared the IRS workforce at that time to the projected workforce in 5 years based on factors such as retirement, attrition, and hiring trends (including migrations between IRS business units). The factors considered in this analysis were consistent with Federal Government best practices. In addition, beginning in October 2007, monthly reports that provide an overview of human capital trends–such as the number of employees eligible for retirement in mission critical occupations–were created for senior executives. However, neither this report nor quarterly operational reviews provide the same level of detail that is included for projections in the Workforce Plan.
- Representatives from each business unit and the HCO formed a Human Capital Advisory Council and a Workforce Planning Sub-Council to study, analyze, and forecast human capital needs. The Councils were established to identify human capital requirements necessary to meet IRS objectives, including the skills needed to accomplish organizational goals, the

number of staff that will be needed, the location of needed staff, and when staffing shortfalls at specific locations can be expected.

- As we were completing our review, the IRS stated that it plans to begin conducting exit surveys with employees leaving the IRS. The surveys were still in the development phase as of April 2008 but will be used to gather information necessary to better project future separations.

The IRS needs additional guidance, better communication, and more interactive analysis when planning for future human resource needs

Implementing a strategic approach to workforce planning would ensure that key competencies expected to be lost through separations are appropriately planned for to provide better assurance that the IRS' mission will be accomplished. The IRS can improve the processes it has put in place to make more consistent and accurate projections of future human resource needs by improving guidance, establishing better communication between the HCO and the IRS business units/functional offices, and using all available tools for estimating separations. If accurate projections are not made, the IRS might struggle to fill unforeseen vacancies, which could affect overall service to taxpayers.

The HCO is a relatively new organization within the IRS. It has spent the last several years establishing and setting up a new organizational structure, as well as determining how to integrate its roles with those of well-established IRS business units and functional offices. However, developing reliable longer term projections will be difficult because guidelines in the Internal Revenue Manual and other procedural documents are outdated and do not reflect the current HCO roles and responsibilities for projecting separations.

As a result, the HCO and the business units/functional offices have been unable to fully implement a strategic approach to workforce planning because corporate processes for creating and monitoring separation projections do not exist. Specifically:

- IRS business units and functional offices used their own methods to create and monitor separation projections.
- The agency-wide process for improving the accuracy of separation projections is out of date.
- Measures have not been created to assess the accuracy of separation estimates.
- Changes in hiring that could affect future projections are not always being communicated.

IRS business units and functional offices used their own methods to create and monitor separation projections

While the HCO has obtained detailed workforce demographics and projections of future human resource needs, the IRS business units and functional offices continued to use varying processes to project separations. For example, interviews of IRS officials from selected business units and functional offices indicated that they had developed a range of internal processes to estimate separations because data from the HCO Workforce Plan were old and of limited value. The March 2006 Workforce Plan contains detailed separation data. However, as of April 2008, the information in the Plan had not been updated since the Plan was issued.

The processes used by the business units and functional offices to estimate separations were not always consistent, which precluded the IRS from doing any type of agency-wide comparative analysis to identify trends. In most instances, business units/functional offices worked to varying degrees with their Finance office staffs and/or other components within their operations to estimate the numbers of separations, which were usually based on historical trends. In addition, 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. Business units and functional offices also used different methods to monitor retirements and staffing. The majority of the business units and functional offices we interviewed used the PeopleTrak[6] system for this purpose, while the others used internally developed methods.

The unique, short-range processes used by the business units and functional offices do not allow managers and other decision makers to make strategic decisions. Because a significant number of employees with key skills and competencies in different locations, occupations, and grade levels could leave the IRS, longer term separation projections must be developed. These longer term projections could be used to develop strategies for replacing the loss of institutional memory with the skills and competencies needed for the future.

The agency-wide process for improving the accuracy of separation projections is out-of-date

Internal Revenue Manual sections related to IRS workforce planning have not been updated since July 2003, which is prior to establishment of the HCO. Contained within this outdated guidance is a requirement for an annual analysis of the workforce planning process, a good concept that we believe should be followed in the current IRS environment. However, this analysis is currently not being performed due to staffing issues within the HCO. In addition, Support Agreements[7] between the HCO and the IRS business units do not address processes for creating, refining, and using separation projections.

[6] The PeopleTrak system is a centralized, web-based application originally devised to 1) monitor hiring plans and workforce initiatives by organization, location, and position, and 2) map all mission critical occupation hiring data into an agency-wide position management system. The system tracks internal and external mission critical occupation hires and has a robust reporting tool for providing real-time information to the HCO, IRS management, and support organizations.

[7] Support Agreements provide information about service delivery tasks that the HCO has agreed to provide to customers, delineates HCO and customer commitments regarding those tasks, and defines how the HCO's performance of its commitments will be measured.

For example, the Human Capital Advisory Council and its related Workforce Planning Sub-Council provide a means for discussing workforce planning issues, yet there is no record of any meaningful feedback being provided to the HCO division responsible for making projections.

In addition, detailed analyses were not performed to identify significant differences between actual separations and separations projected in the Workforce Plan. We conducted this analysis and identified some useful results. For example, as shown in Figure 2, our analysis of Fiscal Year 2007 data showed that the number of customer service representatives[8] who left the IRS was substantially more than expected. The IRS Workforce Plan projected that 1,170 customer service representatives would leave the IRS during Fiscal Year 2007, while the actual number was 1,732, a difference of 562 (48 percent). Conversely, the number of Office of Appeals staff projected to leave the IRS was 242, while the actual number was 141. Thus, the Office of Appeals did not need to replace 101 (42 percent) employees who were projected to leave the IRS. Figure 2 shows that some separation projections for individual IRS occupations have been relatively accurate, while others have not.

[8] Customer service representatives provide assistance to individuals and businesses through telephone contact.

Figure 2: Estimated Number of Employees Expected to Leave the IRS Compared to the Number Who Actually Left

Fiscal Year	IRS Occupations	Number of Employees Expected to Leave the IRS	Number of Employees Who Actually Left	Difference	Percentage Difference
2006	**All IRS Occupations**	**10,586**	**11,045**	**459**	4%
	***Select Mission Critical Occupations*[9]**				
	Revenue Agent[10]	838	866	28	3%
	Revenue Officer[11]	474	414	-60	-13%
	Customer Service Representative	1,202	1,423	221	18%
	Office of Appeals Staff	207	134	-73	-35%
2007	**All IRS Occupations**	**10,893**	**13,147**	**2,254**	21%
	Select Mission Critical Occupations				
	Revenue Agent	936	930	-6	-1%
	Revenue Officer	531	508	-23	-4%
	Customer Service Representative	1,170	1,732	562	48%
	Appeals Staff	242	141	-101	-42%

Source: IRS HCO Workforce Plan dated March 2006 and queries of the Agency-Wide Shared Services organization IRS Human Resources Reporting Center web site. We did not verify the accuracy of these data because their accuracy did not affect the accomplishment of our audit objective.

While we understand that estimates will never be exact, a process to review past inaccuracies and make adjustments could improve future projections and provide more meaningful workforce planning analyses.

Measures have not been created to assess the accuracy of separation estimates

Existing measures do not assess the accuracy of separation projections. Through Fiscal Year 2007, the HCO communicated staffing information to the business units and functional offices via statistics included in quarterly Business Performance Reviews. This information was generally presented in the form of nationwide staffing statistics and percentages. In October 2007, the HCO initiated a report that includes 3 years of statistics for separations and

[9] We selected these four mission critical occupations because they were the focus of the March 2006 Workforce Plan.
[10] Revenue agents examine and audit the financial records of corporate and individual taxpayers, helping to ensure that these taxpayers pay the appropriate taxes and comply with Federal laws.
[11] Revenue officers are responsible for collecting delinquent taxes.

hiring activity, as well as a comparison of the total number of employees in mission critical positions.

While this report provides good statistical information (including the total number of existing staff for key positions), the data are limited to nationwide totals for separations for mission critical positions and do not provide a means for measuring the accuracy of separation estimates provided by the business units and functional offices. As such, the IRS does not know at a given point in time the number of vacancies that will become available in a specific location. In addition, there is no comparison between estimated and actual separations that enables the IRS to measure the accuracy of the estimates to provide a means for improving future projections.

Measures are also needed to track the migration of employees from one business unit to another. The Workforce Plan indicates that this migration makes it difficult for the IRS to forecast its hiring requirements and suggests that migrations be tracked and analyzed regularly to address transfers between the business units and functional offices.

Changes in hiring that could affect future projections are not always being communicated

Several business units and functional offices entered their Annual Hiring Plan[12] information into the PeopleTrak system, believing that this provided a means of communicating changes to the HCO. However, the HCO does not use the PeopleTrak system for this purpose. Staff from the HCO advised us that the IRS has not decided whether the PeopleTrak or another system will be the final one used for workforce tracking because there is no consensus among the business units/functional offices about using the PeopleTrak system as the standard to monitor and track resources. Further, the HCO does not have authority to mandate how the business units/functional offices provide resource information.

Ideally, the IRS should have a resource tracking system that provides a means of monitoring the status of mission critical positions at both the national and local levels. This would provide a means for senior IRS management to recognize whether there are any mission critical positions (or geographical areas) for which there are impending staffing shortages. While the Business Performance Review process and a newly instituted report provide staffing information, the data include nationwide totals and are insufficient for detailed tracking of workforce trends for specific occupations or locations.

<u>*Management Actions*</u>: After we informed IRS HCO officials about our initial results, the HCO provided a draft version of a document entitled *IRS Corporate Workforce Planning Framework Design*, with segments completed in November 2007 and February 2008. The *Framework* was

[12] The Annual Hiring Plan defines expected hiring for full-time equivalent positions at the division and agency levels. A full-time equivalent is a measure of labor hours in which 1 full-time equivalent is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2007, 1 full-time equivalent was equal to 2,080 staff hours. For Fiscal Year 2008, 1 full-time equivalent is equal to 2,096 staff hours.

created because the HCO had identified a need to improve the IRS' corporate workforce planning capabilities, which include making separation projections.

Within the *Framework*, the HCO lists many of the same concerns identified during our audit. For example, the HCO determined that:

- Workforce planning challenges include duplication of research and analysis, inconsistent analysis methods, and lack of information-sharing across organizations.
- Current workforce planning processes should be defined and documented.
- The workforce planning Internal Revenue Manual needs to be updated.
- Multi-year workforce planning efforts need to be aligned with annual budget-driven efforts.
- Workforce planning processes should be monitored and assessed to determine the success of implementing workforce strategies based on these processes.
- Workforce planning data standards, migration reports, and additional forecasting templates might be needed.

While we agree with many of the findings and recommendations in the draft *Framework*, we believe that the key to successfully implementing a corporate workforce planning framework will be the ability of the HCO and the business units/functional offices to reach consensus on implementing the concepts included in the proposed planning *Framework*.

Recommendation

Recommendation 1: As part of any planned improvements to the workforce planning process, the Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement should establish a more collaborative, integrative process to implement agency-wide roles and responsibilities for effectively creating, refining, and using separation projections. In determining HCO and business unit/functional office roles and responsibilities, the Deputy Commissioners should:

- Revise Internal Revenue Manual guidance and Support Agreements–as well as develop agency-wide templates and/or formats–for more consistency regarding separation projections.
- Ensure that adequate analyses are performed and measures are developed to identify differences between actual and projected separations and actual and projected migrations of employees from one business unit to another and use existing mechanisms (e.g., Workforce Planning Councils, Business Performance Reviews) to ensure that feedback is provided to improve future projections.

- Develop a consistent method (e.g., a system or process) to communicate hiring changes that could affect future projections.

  Management's Response: IRS officials agreed with our recommendation. The IRS Human Capital Officer plans to partner with the Human Capital community and the Office of Program Evaluation Review and Analysis to revise Internal Revenue Manual guidance, existing Support Agreements, and the roles and responsibilities of the various partners (and their workforce planning processes and procedures where necessary) to ensure more consistency regarding separation projections. The IRS Human Capital Officer also plans to work with representatives of each IRS business unit to develop a comprehensive, agency-wide workforce planning process (including appropriate measures) to better enable the IRS to analyze its collective workforce needs and make accurate separation projections (including migrations between the business units).

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether the IRS is effectively projecting its future human resource needs. To accomplish this objective, we:

I. Determined whether the HCO had developed and followed effective procedures to analyze the IRS workforce and make accurate separation[1] projections, including migrations between the business units.

   A. Determined whether the HCO had developed and followed effective procedures to analyze the current IRS workforce by reviewing selected procedures outlined in the Internal Revenue Manual and interviewing IRS representatives involved in the process of projecting separations. Specifically, we determined whether:

      1. Workforce planning roles, responsibilities, and other program requirements were outlined in procedures.

      2. Trends in various types of separations were analyzed between business units/functional offices. When so, we determined whether the analysis was performed regularly.

   B. Determined whether the HCO had developed and followed effective procedures to make accurate separation projections by reviewing selected procedures outlined in the Internal Revenue Manual and interviewing IRS representatives involved in the process of projecting separations. Specifically, we determined whether:

      1. Anticipated staffing changes were reviewed and incorporated into the HCO Workforce Plan when making separation projections.

      2. HCO measures were developed to assess the accuracy of separation projections.

      3. The HCO analyzed separation estimates each fiscal year and, if estimates were substantially different from actual separations, assessed actions taken as a result of inaccurate estimates.

      4. The HCO obtained feedback from the individual business units/functional offices regarding concerns with the separation projections or any of the processes associated with estimating the projections.

[1] Retirements, migrations between business units/functional offices, and other forms of attrition are collectively referred to as separations.

5. The IRS had a corporate strategy for managing and measuring the extent of staff migrations between business units.

II. Determined whether the HCO was providing adequate support to the business units/functional offices to ensure that separation projections are useful. Specifically, we determined whether:

A. Support Agreements[2] had been established with each business unit and whether the Agreements establish expectations for estimating the number of employees who will potentially leave the IRS.

B. Agency-wide templates and/or processes were developed for business units/functional offices to follow when conducting their own staffing analyses.

C. Business units/functional offices were using information provided by the HCO to make staffing decisions.

D. Any feedback was received by the HCO from the business units/functional offices regarding the accuracy of separation projections and/or associated processes.

E. An annual analysis of the workload planning process was performed as required in the Internal Revenue Manual and whether any input was received regarding the accuracy of separation projections or associated processes.

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. We determined that the following internal controls were relevant to our audit objective: procedures for analyzing the IRS workforce, making accurate projections, and coordinating workforce planning activities between the HCO and the business units/functional offices. We evaluated these controls by interviewing management and reviewing applicable information.

[2] Support Agreements provide information about service delivery tasks that the HCO has agreed to provide to customers, delineates HCO and customer commitments regarding those tasks, and defines how the HCO's performance of its commitments will be measured.

Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
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Appendix III

Report Distribution List

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Appendix IV

Management's Response to the Draft Report

HUMAN CAPITAL OFFICE

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

RECEIVED
AUG 11 2008

August 11, 2008

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Robert Buggs
IRS Human Capital Officer

SUBJECT: Draft Audit Report – A More Strategic and Consistent Approach to Estimating Retirements and Other Separations Is Needed to Better Plan for Future Human Resource Needs (Audit # 200810026)

We have reviewed the above subject report and appreciate your recommendation to improve our strategic management of IRS Human Capital resources. As noted, your findings stem from review of the HCO and Business Unit approaches to determining / projecting separations and review of Internal Revenue Manual sections related to IRS workforce planning and Support Agreements between the HCO and the IRS business units among other documents.

We agree with the findings and will work to strengthen the areas noted in your review. Attached is our specific response and planned corrective action to address your recommendation.

If you have any questions, please call me at (202) 622 7676 or Stanton J. M. Collins, Acting Director Strategic Planning and Measures at (512) 499-5908.

Attachment

Attachment

Recommendation 1: As part of any planned improvements to the workforce planning process, the Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement should establish a more collaborative, integrative process to implement agency-wide roles and responsibilities for effectively creating, refining, and using separation projections. In determining HCO and business unit/functional office roles and responsibilities, the Deputy Commissioners should:

- Revise Internal Revenue Manual guidance and Support Agreements, as well as develop agency-wide templates and/or formats, for more consistency regarding separation projections.
- Ensure that adequate analyses are performed and measures are developed to identify differences between actual and projected separations and actual and projected migrations of employees from one business unit to another and use existing mechanisms (*e.g.*, Workforce Planning Councils, Business Performance Reviews) to ensure that feedback is provided to improve future projections.
- Develop a consistent method (*e.g.*, a system or process) to communicate hiring changes that could affect future projections.

Corrective Action(s): We agree with this recommendation and will take the following actions:

The IRS Human Capital Officer will partner with the HCO community and the Office of Program Evaluation Review and Analysis (OPERA) and revise the Internal Revenue Manual guidance, the existing support agreements, the roles and responsibilities of the various partners, and their workforce planning processes and procedures where necessary to ensure more consistency regarding separation projections.

The IRS Human Capital Officer will work with representatives of each IRS business unit to develop a comprehensive agency-wide workforce planning process, including appropriate measures, to better enable the IRS to analyze its collective workforce needs and make accurate separation projections, including migrations between the business units;

Proposed date for follow-up: June 30, 2009

Responsible Official: Acting Director Strategic Planning and Measures Division

Corrective Action Monitoring Plan: We will monitor this corrective action through monthly updates to the Human Capital Officer.