

**The Human Resources Investment Fund Is  
Not a Cost-Effective Method of Providing  
Tuition Assistance**

**March 2005**

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

March 31, 2005

MEMORANDUM FOR CHIEF HUMAN CAPITAL OFFICER

*Pamela J. Gardiner*

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Human Resources Investment Fund Is  
Not a Cost-Effective Method of Providing Tuition Assistance  
(Audit #200310034)

This report presents the results of our review of the Human Resources Investment Fund (HRIF). This audit was conducted to assess the effectiveness of this tuition assistance program in promoting career development, increasing the internal pool of candidates for the Internal Revenue Service's (IRS) critical occupations, and improving the skills of the employees who are currently in these positions.

The HRIF Program Office did not maintain adequate records to track participants or assess the Program. As a result, many of the statistics reported about the results and benefits of the Program are inaccurate or misleading. The HRIF Program Office originally reported the number of promotions and career moves among HRIF Program participants as a formal Program measure. However, Program officials later realized that the statistics were inaccurate and discontinued reporting these measures in Fiscal Year (FY) 2003. The HRIF Program Office also reported on the funds disbursed and the "pass rate" of employees receiving tuition assistance. These statistics were also inaccurate. The amount spent by the HRIF Program for tuition assistance in FYs 2002 and 2003 was \$2.8 million, which was only 46 percent of the \$6.1 million reported to have been "disbursed" on the Program. The HRIF Program "pass rate" was reported to be 95 percent; however, this only applied to employees who reported their grades. For 57 percent of the courses approved for tuition assistance, employees did not report a grade and did not even report as to whether they had ever taken the courses. As such, the HRIF Program Office did not know whether employees passed or failed the courses and, accordingly, whether to seek reimbursement from employees for failed courses, as required.

The HRIF Program does not appear to be a cost-effective method to distribute tuition assistance. Administrative costs are higher than the actual tuition paid. The cost to administer the HRIF Program for both FYs 2002 and 2003 was approximately \$4.4 million while the actual tuition assistance provided to employees was only \$2.8 million. There were approximately 31 Full-Time Equivalent (FTE)<sup>1</sup> positions employed to administer the HRIF Program in FY 2002 and approximately 28 FTE in FY 2003.

The IRS has other existing processes it could use to more effectively distribute tuition assistance. The IRS has an Individual Development Plan (IDP) process in place which can be used by every employee. The IDP process allows the manager and employee to analyze the employee's skills, identify the employee's career objectives, list new skills needed, and outline a course of action to enable the employee to obtain these skills. Employees facing a Reduction in Force are eligible to participate in the Career Transition Assistance Program (CTAP), which provides outplacement services, continuing self-administered education, and the employee assistance program. Unlike the HRIF Program, the CTAP does not limit the types of classes, the number of classes, or maximum funding for employees facing a Reduction in Force. Using the CTAP, employees may select courses that would qualify them for available vacancies in the IRS that may not necessarily be mission critical, as required by the HRIF Program.

Given that the IRS has appropriate means to allocate tuition assistance through existing processes to better accomplish the intended objectives of the HRIF Program, we believe that the IRS should consider eliminating the HRIF Program and redesign its approach to providing tuition assistance. This will allow the IRS to more effectively use the resources which have been dedicated to administering this Program.

We recommended that the Chief Human Capital Officer determine the grade and/or status for all courses approved using HRIF Program funds since FY 2000 to determine whether any employees are currently liable to reimburse the IRS for courses that were either failed and/or not completed. We also recommended that the Chief Human Capital Officer consider eliminating the HRIF Program and implementing an alternative method of providing tuition assistance.

Management's Response: IRS management agreed with our recommendations and proposed corrective actions to address the problems identified in the report. These proposed actions include reviewing and updating the HRIF Program database for FYs 2003 and 2004 and seeking reimbursement from those employees who failed or did not complete their courses. Management will conduct a cost/benefit analysis of this review and proceed with the examination of additional years if the result is positive. Management will also consider eliminating the HRIF Program and providing tuition assistance through alternative means. Management will make new recommendations in the upcoming contract negotiations with the National Treasury Employees Union for implementation in June 2006. In addition, management will begin using the IRS' new

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<sup>1</sup> A measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FYs 2002 and 2003, 1 FTE was equal to 2,088 hours.

official training record-keeping system, the Enterprise Learning Management System, to manage the program in FY 2006.

Management did not agree with the entire \$10.7 million in estimated savings we reported would accrue over 5 years if the HRIF Program is replaced with a more effective tuition assistance program. Management stated certain costs would still be incurred, such as costs to process training requests and costs to distribute tuition assistance funds. As such, management believes our outcome measure should be reduced to account for these costs. Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment: Management provided us with the number of employees, grade level, percentage of time, and travel costs associated with the HRIF Program, which we used to develop our administrative cost estimates. Management did not provide us with a breakout of the time and costs associated with processing requests and distributing funds. Our outcome measures were based on the best information management provided us at the time of the report.

Copies of this report are also being sent to IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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## The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance

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### Background

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After the enactment of the Restructuring and Reform Act of 1998,<sup>1</sup> the Internal Revenue Service (IRS) and the National Treasury Employees Union (NTEU) signed a Restructuring Agreement (April 28, 1999). One of the provisions in this agreement was the establishment of the Human Resources Investment Fund (HRIF). The HRIF is a program to provide tuition assistance to IRS employees to promote career development.<sup>2</sup> The 2002 National Agreement between the IRS and the NTEU reaffirmed the IRS' commitment to maintain the HRIF Program. These agreements are binding and enforceable under the governing labor law.<sup>3</sup>

Based on the agreement with the NTEU, the IRS must fund the HRIF Program at no less than 2 percent of the IRS annual training budget. The IRS also funds an additional prorated amount for nonbargaining unit employees. Since Fiscal Year (FY) 2001, the average annual budget for the HRIF Program has been approximately \$2.3 million for bargaining unit and \$500,000 for nonbargaining unit employees. To allocate the tuition assistance funds, the IRS, in coordination with the NTEU, establishes criteria that employees must meet for acceptance into the Program.

The HRIF Program is intended to help employees obtain the courses needed to advance their careers or assist in career transition by helping employees obtain the knowledge and skills needed for other positions within the IRS, especially those occupations considered to be "mission critical," such as accounting and information technology.<sup>4</sup> HRIF Program participants must take the courses on their own time and are

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

<sup>2</sup> Article 10 of the Restructuring Agreement (April 28, 1999).

<sup>3</sup> 5 U.S.C. Chapter 71- Labor Management Relations.

<sup>4</sup> Mission critical occupations are those job series that are mission critical to IRS frontline operations, which include Appeals Officer, Special Agent, Revenue Agent, Revenue Officer/Settlement Officer, some Engineers and Economists (Large and Mid-Size Business Division), Tax Law, Tax Examiner, Tax Specialist/Tax Compliance Officer/Tax Resolution Representative, Customer Service Representative, and Computer Specialist (Internal Revenue Manual 6.251.1).

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limited to a maximum of \$1,500 and 4 courses for each participant.

The Human Capital Office (HCO) maintains overall Program responsibility and, in partnership with the business units, administers the Program. The IRS and the NTEU sign a Letter of Understanding each year that defines the program areas, prioritizes the funding, and outlines the eligibility criteria and conditions for participation in each program area. Table 1 shows the number of applicants accepted into the HRIF Program for each program area in order of priority for FY 2004.

**Table 1: HRIF Program Categories and Participants (FY 2004)<sup>5</sup>**

<b>Category (In order of priority)</b>	<b>Applicants Accepted</b>	<b>Category Percentage</b>
1. Accounting	997	49.7%
2. Information Technology	262	13.1%
3. Information Technology <i>(for non- Information Technology employees)</i>	422	21.0%
4. Multilingual	224	11.2%
5. E-learning	102	5.1%
<b>TOTAL</b>	<b>2,007</b>	

*Source: HRIF Program Office Statistics.*

This review was performed at the IRS National Headquarters in the HCO and the HRIF Program Office in Methuen, Massachusetts;<sup>6</sup> the NTEU office in Washington, D.C.; embedded Learning and Education functions throughout the IRS; the Modernization and Information Technology Services (MITS) organization in Andover, Massachusetts; and the Beckley Finance Center in Beckley, West Virginia. The review was conducted during the period November 2003 through October 2004. The audit was conducted in accordance with *Government Auditing Standards*. 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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<sup>5</sup> Percentages do not total 100 percent due to rounding.

<sup>6</sup> The HRIF Program Office moved from Methuen to the Andover Campus after our December 2003 visit.

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### **The Internal Revenue Service Cannot Track the Costs of the Human Resources Investment Fund or Assess Its Benefits**

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The Government Accountability Office's publication, *Human Capital: A Guide for Assessing Strategic Training and Development Efforts in the Federal Government*,<sup>7</sup> stresses the importance of Federal Government agencies evaluating their own training and development programs to demonstrate how their training efforts help develop employees and improve the agencies' performance. This publication states, "Because the evaluation of training and development programs can aid decision makers in managing scarce resources, agencies need to develop evaluation processes that systematically track the cost and delivery of training and development efforts and assess the benefits of these efforts."

Since the HRIF Program's inception in September 2000, the IRS Commissioner and the NTEU, as well as other stakeholders, have not been provided reliable and relevant information about the costs and benefits of the HRIF Program. As a result, the IRS and the NTEU have not had an adequate basis with which to determine whether to continue or modify the Program.

The IRS Strategic Human Resources<sup>8</sup> Biennial Report for FY 2001 and FY 2002 reported that the purpose of the HRIF Program is to increase the internal pool of candidates for the IRS' critical shortage occupations and help retain employees who are currently in these occupations. To measure the success of the Program, the HRIF Program Office reported on the following results:

- Number of HRIF Program students who were promoted.
- Job transitions to mission critical occupations.
- Number of approved applicants.
- Funds disbursed.
- Students' pass rate.

Table 2 shows the performance measures that the HRIF Program Office reported from FYs 2000 through 2003.

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<sup>7</sup> GAO-04-546G, dated March 2004.

<sup>8</sup> The Strategic Human Resources office is now the Human Capital Office.



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**Table 2: HRIF Program Performance Measures as Reported to the  
IRS Commissioner<sup>9</sup>**

<b>Fiscal Years</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Approved Students	1,540	2,570	2,475	2,680
Funds Disbursed	\$2.3 M	\$2.8 M	\$3.1 M	\$3.0 M
Promotions	5% (combined)		30%	*
Transition to Mission Critical Occupations			12%	*
Student Pass Rate	*	*	95%	95%

*Source: FYs 2002 and 2003 Business Performance Reviews and the Strategic Human Resources Biennial Report – FY 2001 and FY 2002.*

*\*Not Reported.*

In April 2002, the IRS completed a study which reported 5 percent of the HRIF Program participants in the FYs 2000 and 2001 Programs had been promoted to a higher grade or changed to a different series at the same grade. When we requested the data and methodology used to perform the analysis, Program officials responded that they no longer had the data and methodology used. Moreover, the study did not include a comparison to employees who did not participate in the HRIF Program, nor did it show the historical rates of promotion and job transitions within the IRS. In September 2002, the Strategic Human Resources office’s Business Performance Review reported to the IRS Commissioner that 30 percent of the HRIF Program participants had been promoted and 12 percent moved into a new job series. The HRIF Program officials later advised us that these statistics were inaccurate and were inadvertently included in the report. In FY 2003, the Strategic Human Resources office discontinued reporting the number of promotions and career moves among HRIF Program participants as a formal performance measure.

<sup>9</sup> Promotions and Transitions were combined for FYs 2000 and 2001 into a single percentage of HRIF Program participants covering both years. The percentages reported in FY 2002 were cumulative. Both measures were discontinued after FY 2002. The pass rate was not used prior to FY 2002.

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The HRIF Program Office reported there were a total of 5,155 approved employees for FYs 2002 and 2003 and employees passed 95 percent of the courses taken in each fiscal year. However, the reports did not disclose that employees only reported they had completed a course and received a grade for 34 percent of the courses and they either withdrew or did not enroll in 9 percent of the courses approved for tuition assistance. The HRIF Program Office had no information on the other 57 percent. The 95 percent pass rate only applies to the students who reported a grade, not the students who were accepted into the Program.

The HRIF Program Office also reported that it had “disbursed” a total of \$6.1 million for HRIF Program tuition assistance in FYs 2002 and 2003. However, this number represented the funds approved to be spent for the 5,155 approved students, not the amount disbursed. The amount actually spent for tuition assistance was just \$2.8 million (46 percent of what was reported) for FYs 2002 and 2003.

### **The HRIF Program Office did not maintain adequate records**

The HRIF Program Office was not able to report accurately on the actual employee completion of courses because the information in the HRIF Program database, which is used to maintain historical records and current information on accepted applicants,<sup>10</sup> was inaccurate and incomplete. We analyzed an extract of the HRIF Program database for FYs 2002 and 2003. For the 2-year period, the database had no information as to whether the employees completed the courses for 6,507 (57 percent) of the approved courses. Table 3 shows the status of approved courses as recorded in the database.

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<sup>10</sup> Approved applicants who notified the Program Office before the end-of-year cutoff that they would not enroll in any of their approved courses were removed from the database or “deactivated.”

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**Table 3: Status of Approved Courses for FYs 2002 and 2003 as  
Recorded in the HRIF Program Database**

Status of Approved Courses	FY 2002	FY 2003
Passed	2,101	1,638
Failed	60	45
Withdrawn*	592	60
Did Not Enroll*		352
Unknown (No Grade Reported)	3,215	3,292
<b>Total</b>	<b>5,968</b>	<b>5,387</b>

*Source: Extract of the HRIF Program FYs 2002 and 2003 database as of April 28, 2004.*

*\*In FY 2002, the database did not distinguish between courses in which the student withdrew and courses in which the student did not enroll.*

Although HRIF Program Officials were aware that there were a significant number of courses with an unknown completion status, they did not know the full extent of the problem. To help determine the status of these courses, we selected a statistically valid sample of the courses with no reported grades.<sup>11</sup> We contacted the responsible HRIF Program representatives and requested documentation on the grade or status of the courses. We then reviewed the documents to determine the actual course grade or completion status and used the results of our sample to estimate the number of courses which should have been reported in each category for both fiscal years. Table 4 shows the results of the analysis.

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<sup>11</sup> See Appendix I for an explanation of our sampling methodology.

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**Table 4: Status of Courses with No Grade Recorded for FYs 2002  
and 2003 in the HRIF Program Database**

<b>Actual Status of Courses with No Reported Grades</b>	<b>Percent of Sample</b>	<b>Total Projected to Population</b>
Passed	13.85%	901
Failed or Withdrawn	6.67%	434
Class Taken, No Grade Reported	9.74%	634
Did Not Enroll	67.18%	4,371
Other*	2.56%	167
<b>Total</b>	<b>100%</b>	<b>6,507</b>

*Source: Extract of the HRIF Program database for FYs 2002 and 2003 as of April 28, 2004, and Supporting Documentation from HRIF Program representatives.*

*\* Classes still in progress or there was no information available on the status of the classes.*

HRIF Program participants who do not complete the class or do not receive at least a “C” or “Pass” are required to reimburse the IRS for all costs incurred or obtain their manager’s approval to waive the reimbursement. We estimate that 434 courses were either failed or withdrawn, and an additional 634 classes were taken, but the employee did not report their grade as required. The IRS was not able to provide enough information to determine the percentage of HRIF Program participants who owed money to the IRS but had not paid.

In addition, the HRIF Program database included 105 courses that were recorded as failures (recorded grade of “D” or “F”). In these instances, the field representatives are supposed to notify the employee’s manager, who is responsible for initiating reimbursement through the IRS Beckley Finance Center. We contacted the Beckley Finance Center staff to determine the reimbursement status for these 105 courses. The Beckley Finance Center staff could not locate records for 24 (23 percent) of the failed grades. The HRIF Program database does not include the name of the educational institution or a requisition number; therefore, the Beckley Finance Center did not have the information needed to confirm the failure and determine whether or not the employees were liable for the cost of the courses.

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To further evaluate the validity of the data in the HRIF Program database for FYs 2002 and 2003, we also selected a random sample of 125 HRIF Program training records which had information recorded in the following categories:<sup>12</sup>

- Passed classes.
- Failed classes.
- Withdrawal from class.
- Did not enroll.

The results of the sample identified 13 errors related to the employee's grade or participation status. Based on the results of our sample, we estimate there are 629 errors in the database related to the grade or status reported.

As we noted previously, for 57 percent of the classes approved in FYs 2002 and 2003, the employees did not report whether they enrolled in the classes. Program officials did not know how many of these classes were actually taken, but our sample indicated that most of them were not taken. Consequently, Program officials did not know how much funding was available for other applicants. Table 5 shows the percentage of HRIF Program funds that have been paid out for tuition assistance.

**Table 5: FYs 2002 and 2003 HRIF Program Budget and Actual Tuition Assistance Paid**

	<b>HRIF Program Tuition Assistance Budget</b>	<b>Tuition Assistance Paid</b>	<b>Percentage of Budgeted Funds Used</b>
<b>FY 2002</b>	\$2,800,000	\$1,490,554	53%
<b>FY 2003</b>	\$2,503,025	\$1,286,437	51%
<b>Totals/Average</b>	<b>\$5,303,025</b>	<b>\$2,776,991</b>	<b>52%</b>

*Source: The HCO and an Extract of the Automated Financial System (AFS)<sup>13</sup> from the Deputy Chief Financial Officer – Beckley Finance Center.*

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<sup>12</sup> See Appendix I for an explanation of our sampling methodology.

<sup>13</sup> A computer-based financial accounting system used by the IRS to track appropriations and expenditures.

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The fact that 48 percent of the funds were set aside for employees who decided not to participate was unfortunate because of the 3,389 employees that the IRS reported were rejected by the HRIF Program during FYs 2002 and 2003, 1,680 were rejected because of insufficient funding.

The HRIF Program Manager was aware at the time that a significant number of employees either chose not to participate or to spend less than their approved amount; however, the exact amount was not known because neither the Program Manager nor the HRIF Program representatives followed up with the accepted applicants to determine the status of the classes. The HRIF Program Office attempted to offset the low rate of participation by approving more than the IRS Agreement with the NTEU requires, but only to a limited extent because of uncertainty as to what the actual HRIF Program participation rate would be for those years. Without adequate monitoring of employees' progress throughout the year, the fund could not be fully used for its intended purpose.

Overall, the IRS does not have an adequate follow-up process to determine the status of each employee's registration and coursework so that the appropriate information can be entered into the HRIF Program database. As a result, the HRIF Program database remains incomplete and inaccurate. Without this data, as well as data on related promotions and transfers, the HRIF Program Manager does not have the information needed to report on the results or assess the benefits of the Program. In addition, the IRS does not always have the information needed to seek reimbursement as required for employees who do not pass the courses for which they have received tuition assistance.

### **Recommendation**

1. The Chief Human Capital Officer (CHCO) should ensure the HRIF Program database has complete and accurate information including the grade and/or status for all courses approved by the HRIF Program since FY 2000. For courses which were failed and/or not completed, the IRS should request reimbursement from employees as appropriate.

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Management’s Response: The CHCO agreed to develop an action plan to update the database for FY 2003 and FY 2004 and to present the plan to the Learning and Education Policy Sub-council. Management will distribute spreadsheets identifying the missing grade fields to the embedded Learning and Education divisions to be updated and will seek reimbursement from all students who failed or did not complete their courses. Management will conduct a cost/benefit analysis of this review and proceed with the examination of additional years if the result is positive.

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**Administrative Costs Are  
Higher Than the Actual Tuition  
Paid**

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The administrative processes associated with the HRIF Program are labor-intensive, time-consuming, and costly. The costs to administer the Program are actually much higher than the amount paid for tuition. In FY 2002, the IRS spent an estimated \$2.3 million to administer the \$1.5 million it paid for tuition assistance. In FY 2003, the IRS spent an estimated \$2.1 million to administer the \$1.3 million it paid for tuition assistance. Table 6 compares the estimated administrative costs to the amounts paid for tuition assistance in each year.

**Table 6: Comparison of Estimated Administrative Costs and Tuition Assistance for FYs 2002 and 2003**

	<b>Tuition Assistance</b>	<b>Estimated Administrative Costs</b>	<b>Administrative Cost Percentage</b>
<b>FY 2002</b>	\$1,490,554	\$2,281,057	153%
<b>FY 2003</b>	\$1,286,437	\$2,137,616	166%
<b>Totals/Average</b>	\$2,776,991	\$4,418,673	159%

*Source: The IRS AFS as of September 20, 2004, and IRS HCO.*

There were approximately 31 Full-Time Equivalent (FTE)<sup>14</sup> positions employed to administer the HRIF Program in FY 2002 and approximately 28 FTE in FY 2003. The requirements of the administrative process include:

- Establishing Annual Program guidelines and providing application instructions through the HRIF

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<sup>14</sup> A measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FYs 2002 and 2003, 1 FTE was equal to 2,088 hours.

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Program web site and business unit HRIF Program representatives.

- Performing a joint (IRS and NTEU) review of the applications to determine eligibility and acceptance into the Program.
- Notifying applicants as to whether they have been accepted into the Program.
- Answering questions and assisting applicants during the application submission period and in the enrollment process.
- Allocating the funds and accounting for transactions such as tuition payments.
- Tracking participation and course completion.
- Compiling an annual report to the NTEU containing acceptance/nonacceptance data for each applicant.

The HRIF Program Office has four full-time employees who are responsible for the day to day administration of the Program, including developing annual Program guidelines, approving students for participation, maintaining the database that tracks students' progress, and internal reporting. The field representatives and financial plan managers, who are geographically dispersed throughout the country, provide part of their time in support of the HRIF Program.

During the 5-week period during which IRS employees apply for acceptance into the Program, 2 NTEU members and 3 IRS employees from the Andover Campus<sup>15</sup> jointly review the applications to determine eligibility and rank the applications. For employees who are accepted into the Program, the HRIF Program representatives assist them through the enrollment process, track and monitor their progress, and provide information on the employees' progress to the administrative team. In addition, the MITS organization provides technical support to the Andover Project Team for the HRIF Program database, and overtime is paid to data transcribers who are temporarily assigned to

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<sup>15</sup> The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



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assist the Andover Project Team during the application process.

HRIF Program funds are distributed to the financial plan managers of all the business units that have participants. The business unit financial plan managers each manage and track the funds allocated to their business units. The Beckley Finance Center devotes staff to paying vendors, monitoring commitments and obligations, and maintaining debt collection documentation.

In addition to the salaries of the employees who administer the Program, there are also related travel overhead costs. Table 7 provides a breakdown of the estimated administrative costs for FYs 2002 and 2003.

**Table 7: FYs 2002 and 2003 Estimated Administrative Costs**

Cost Category	FY 2002			FY 2003		
	Staff	FTE	Cost	Staff	FTE	Cost
Program Manager	1	1.0	\$127,223	1	1.0	\$132,504
Administration Team	4	3.5	264,380	3	3.0	236,025
HRIF Field Representatives	44	13.7	877,519	41	12.1	797,229
Financial Plan Managers	24	6.0	564,474	25	5.4	545,476
Beckley Finance Center	11	6.2	326,951	11	6.2	340,519
NTEU Stewards	2	0.2	9,989	2	0.2	10,404
MITS – Andover	1	0.8	67,900	1	0.1	4,715
Travel			32,525			29,563
Overtime / Data Transcribers <sup>16</sup>			10,096			41,181
<b>Totals</b>	<b>87</b>	<b>31.4</b>	<b>\$2,281,057</b>	<b>84</b>	<b>28.0</b>	<b>\$2,137,616</b>

*Source: The IRS HCO, Office of Personnel Management General Schedule Locality Pay Tables, and Office of Management and Budget's Performance of Commercial Activities (Circular A-76).*

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<sup>16</sup> Cost of overtime and additional transcribers needed during the 5-week student application period. Salaries for data transcribers in FY 2002 were not available.

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The IRS had not previously estimated or monitored the cost of administering the HRIF Program. We contacted four other Federal Government agencies with tuition assistance programs to determine the amount of administrative costs they are paying to administer their programs; however, these agencies advised us they did not monitor such costs and/or could not provide estimates. Notwithstanding, we believe the costs to administer the HRIF Program are far too high. The intent of the administrative process appears to have been to distribute the limited funds in a fair manner in line with the objectives of the Program; however, the cost of the process is not justified in light of the funds provided for tuition assistance. As such, we believe the IRS needs to reevaluate its method of providing tuition assistance.

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### The Human Resources Investment Fund Should Be Replaced With More Effective Tuition Assistance Methods

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Tuition assistance is a long-term recruitment and retention tool and a means to improve employee and organizational performance, as well as to position employees for mission critical occupations. The HRIF Program has not demonstrated its performance in accomplishing these objectives, despite the costly structure in place to administer the Program. These objectives could be more efficiently and effectively accomplished through the IRS' normal process<sup>17</sup> for submitting and evaluating training requests. This would reduce the lead time for approval and would allow the IRS to provide funding for only those classes the employee is ready to take.

The IRS has an Individual Development Plan (IDP) process in place which can be used by every employee. The IDP process allows the manager and employee to jointly analyze skills already possessed by the employee, identify the employee's career objectives, list new skills needed to be acquired, and outline a course of action to enable the employee to obtain needed skills to achieve objectives. The IDP process allows employees to follow a path to increase their skills and can be modified as an employee's career plans change.<sup>18</sup>

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<sup>17</sup> Request, Authorization, Agreement and Certification of Training (Standard Form 182) - the form used to approve funding for out-service training.

<sup>18</sup> IRM 1.4.1.7(c).

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In the IDP process, the first-line manager's involvement in the approval, monitoring, and administration process helps to better ensure applicant participation and success, as well as the timely redistribution of funds to support other employees' IDPs as needed.<sup>19</sup> To ensure resources are available to provide tuition assistance through the IDP process, each division could include tuition assistance as a budget item in the annual training plans.

In addition, the IRS has implemented an automated training system of record, the Enterprise Learning Management System (ELMS), for managing training delivery and administration. The ELMS has the capability to track employees' complete training histories and course performance, as well as create an online IDP linked to the employee's position and individual learning needs. The ELMS can accommodate any training that is included on the IDP. Because this IDP is electronic, there is no need to transfer paper records from manager to manager. In addition, the IRS is currently working with the Office of Personnel Management and other Federal Government agencies to incorporate a new feature that will provide the capability to electronically process requests for out-service training. Currently, the HRIF Program tracking system does not allow Program officials to adequately monitor the students' progress. The IRS should make optimum use of the IDP process and the capabilities of the ELMS.

### **The HRIF Program restrictions limit the benefits for employees facing a Reduction in Force**

In the FY 2005 Letter of Understanding, the IRS and the NTEU agreed that employees facing a Reduction in Force receive the highest priority for acceptance into the HRIF Program. However, the HRIF Program imposes limitations on the types of classes, number of classes, and amount to be reimbursed, which limits the benefit of the Program to employees facing a Reduction in Force.

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<sup>19</sup> IRM 6.410.1.5(5) states "... a manager's decision to support an employee's self-development plans...must always be based on the degree to which the manager believes the employee's newly acquired experience, knowledge, or skills will enhance organizational performance or meet one of the agency's mission-related goals."

## The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance

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- The types of classes are limited to HRIF Program areas, which are tied to the critical needs of the IRS, not the employee facing a Reduction in Force.
- Employees may receive reimbursement for only 4 classes each year, totaling \$1,500. This is not sufficient for many employees to qualify for the mission critical positions. For example, to qualify as an Internal Revenue Agent, candidates must possess 24 semester hours of accounting and 6 semester hours in a business-related field from an accredited college.
- Employees facing a Reduction in Force have 6 months notice before separation action is taken. This is not enough time for most employees to qualify for critical positions supported by the HRIF Program before the separation action.
- The HRIF Program application period and selection of students is in September of each year. This may not coincide with the date of an employee's Reduction in Force notification.
- Classes frequently require students to complete prerequisite courses before enrolling. For example, a student must successfully complete Accounting I before enrolling in Accounting II. A student would not be able to enroll in all needed classes simultaneously.
- The interest in the HRIF Program for employees facing a Reduction in Force has been limited. For example, when 1,700 employees at the Brookhaven Submission Processing Site faced a Reduction in Force in FY 2003, only 155 (9 percent) submitted a training request before the cutoff date, despite unconditional acceptance into the Program.

Employees who are facing a Reduction in Force are eligible to participate in the Career Transition Assistance Program (CTAP), which provides outplacement services, continuing self-administered education, and the employee assistance program. In September 2004, the Senate Committee on Appropriations directed the IRS to minimize involuntary

## The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance

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separations by maximizing CTAP benefits, which included providing training and retraining to employees so they can qualify for other positions in the IRS. In addition, Article 51 of the National Agreement with the NTEU requires the IRS to provide Reduction in Force employees with career transition services, including self-administered continuing education/training courses.

Unlike the HRIF Program, the CTAP does not limit the types of classes, the number of classes, or maximum funding for employees facing a Reduction in Force. Using the CTAP, employees may select courses that would qualify them for available vacancies in the IRS that may not necessarily be mission critical, as required by the HRIF Program. In addition, employees are eligible for outplacement assistance and career transition services. Instead of dedicating HRIF Program training funds for Reduction in Force employees, the IRS should use that funding to maximize the CTAP benefits to these employees.

Given the IRS has the appropriate means to better accomplish the intended objectives of the HRIF Program by allocating tuition assistance through existing processes, we believe the IRS should consider eliminating the HRIF Program and redesign its approach to providing tuition assistance. This will allow the IRS to more effectively use the resources which have been dedicated to administering this Program.

### **Recommendation**

2. The CHCO should consider eliminating the HRIF Program and provide tuition assistance through alternative means such as the IDP process and the CTAP. The success of this approach should be tracked through the IRS' official training record keeping system, the ELMS.

Management's Response: The CHCO agrees that a tuition assistance program that is less resource intensive is a preferable alternative to the current HRIF Program. However, the IRS is working under a contractual agreement with the NTEU that requires the Program to continue under

## The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance

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its current structure through FY 2006. In FY 2006, management will use the ELMS which will significantly improve their ability to maintain a complete and accurate database and reduce the amount of manual processing time.

For FY 2007, management plans to refine the current structure of the HRIF Program. While the outright elimination of the HRIF Program is subject to negotiation with the NTEU, management will assess all available options and make new recommendations in the upcoming contract negotiations for June 2006 implementation. The Director of the HCO Leadership and Education Division and business unit counterparts will present an alternative tuition assistance program to the IRS negotiating team by November 7, 2005.

Management did not agree with the entire \$10.7 million in estimated savings we reported would accrue over 5 years if the HRIF Program is replaced with a more effective tuition assistance program. Management stated certain costs would still be incurred, such as costs to process training requests. As such, management believes our outcome measure should be reduced to account for these costs.

Office of Audit Comment: Management provided us with the number of employees, grade level, percentage of time, and travel costs associated with the HRIF Program, which we used to develop our administrative cost estimates. Management did not provide us with a breakout of the time and costs associated with processing requests and distributing funds. Our outcome measures were based on the best information management provided us at the time of the report.

## The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance

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### Appendix I

#### Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the effectiveness of the Human Resources Investment Fund (HRIF) tuition assistance program in promoting career development, increasing the internal pool of candidates for the Internal Revenue Service's (IRS) critical occupations, and improving the skills of the employees who are currently in these positions. To accomplish this objective, we:

- I. Evaluated whether the HRIF Program successfully increased promotions and career changes among its participants for the IRS' mission critical occupations.
  - A. Reviewed current policy and procedures governing the IRS' HRIF Program and all documentation related to historical Program guidance, statistics, and implementation.
  - B. Interviewed key IRS and National Treasury Employees Union (NTEU) personnel involved in the development and implementation of the HRIF Program, budget, and annual Letter of Understanding and obtained available laws, regulations, and policies.
  - C. Identified the established goals, strategic program plan, and methodology developed to measure the effectiveness of the HRIF Program to promote career development, increase the internal pool of candidates for the IRS' mission critical occupations, and improve the skills of the employees who are currently in these positions.
  - D. Analyzed participant and course information for Fiscal Years (FY) 2002 and 2003 from Human Capital Office personnel, including the Program Manager and the administrative team, the HRIF Program database, and other involved personnel to identify the following:
    1. The number of applicants, number of accepted applicants, and number of accepted applicants who were deactivated.<sup>1</sup>
    2. Applicants who fully participated, partially participated, withdrew after registration, or level of participation is unknown.
    3. Number of participants who were promoted or moved to a mission critical occupation and number of nonparticipants who were promoted or moved to a mission critical occupation.
  - E. Obtained an extract of the HRIF Program database that included all of the approved and disapproved course information for each of the selected applicants who were on

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<sup>1</sup> Deactivated – In FYs 2002 and 2003, accepted applicants who notified the Program that they would not participate (use any of their approved allocation) before September 30, 2002, and September 30, 2003, respectively, were removed from the database.

## The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance

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record as either partially or fully participating in FYs 2002 and 2003 Programs as of April 28, 2004.<sup>2</sup>

1. Identified the number of approved courses and categorized the courses by grade and status: passed, failed, withdrawn (not completed), did not participate (no registration), and unknown (no grade reported).
  2. Contacted the Beckley Finance Center to determine the amount paid and the employee's reimbursement status (repaid date, current liability, or reimbursement waived) for the courses failed and withdrawn. To the extent possible, we identified the unreported failures (and untimely withdrawals) for which the IRS should investigate to determine the employee's liability.
- F. Designed a random attribute sample to determine the accuracy of the reported grades. We randomly sampled 125 of the 4,848 courses with a reported grade/status as follows: 25 passed and 25 failed in FYs 2002 and 2003;<sup>3</sup> 25 withdrawn/did not participate in FY 2002;<sup>4</sup> and 25 withdrawn and 25 did not participate in FY 2003. We obtained verification of sampled course grade/status from the embedded Learning and Education (L&E) functions, compared records to the HRIF Program database, compiled results, and projected the error rate for the population of courses with recorded grades based upon a 95 percent confidence level, an expected error rate of 12.97 percent, and an estimated precision of  $\pm 11.28$  percent. This sampling methodology was developed in consultation with a statistician to estimate the accuracy of the reported grades on the HRIF database.
- G. Designed a statistical random attribute sample based on a 95 percent confidence level, an expected error rate of 5 percent, and an estimated precision of  $\pm 3$  percent to project the grade/status of courses with no reported grade and to estimate the number of failures and untimely withdrawals subject to reimbursement procedures. We randomly sampled 197 of the 6,507 courses without a reported grade for FYs 2002 and 2003. We stratified the population by each fiscal year and selected samples of a size proportional to the population from each stratum: 97 of 3,215 and 100 of 3,292 for FYs 2002 and 2003, respectively. We obtained verification of sampled course grade/status from the embedded L&E functions, compiled results, and projected each category of grade/status for the population of courses without recorded grades. This

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<sup>2</sup> The FYs 2002 and 2003 approved applicants who reported that they would not participate in the Program before September 30, 2002, and September 30, 2003, respectively, were not included in the extract. The records of these applicants are separately maintained on "deactivated" lists that were provided by the Program Office.

<sup>3</sup> We stratified the passed and failed populations for FYs 2002 and 2003 and selected 25 samples of a size proportional to the population from each stratum: Passed – 14 of 2,101 and 11 of 1,638; Failed – 14 of 60 and 11 of 45 for FYs 2002 and 2003, respectively. Due to variance among population sizes for each category of courses with a grade and a low expected error rate, a statistical sample size was not economical. We, therefore, randomly selected 25 from each category. Our sampling methodology was developed with the assistance of a statistician.

<sup>4</sup> In FY 2002, the database did not distinguish between those courses from which the participant withdrew and those where the participant did not register.



## **The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance**

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- sampling methodology was developed with the assistance of a statistician to determine the grade/status of courses with no reported grade on the HRIF database.
- H. Prepared comparative analyses of the participant and course information found in Steps I.D. through I.G. above, identified unusual and questionable items, and assessed the variance.
  - I. Analyzed financial information for FYs 2002 and 2003 from the Automated Financial System, Beckley Finance Center, and other related information to determine the original allocation, distribution, obligations, and expenditures. We identified overages/shortages in spending and assessed variances.
- II. To evaluate the administrative costs associated with the HRIF Program, we:
- A. Identified the amount of training funds expended for the Program during FYs 2002 and 2003 as of September 20, 2004 (See Step I.I. above).
  - B. Identified the Full-Time Equivalents (FTE),<sup>5</sup> salaries, and travel costs incurred by HRIF Program Management and Program Office, and the HRIF Program representatives and financial plan managers in the business units during FYs 2002 and 2003.
  - C. Identified the FTEs, salaries, and travel costs incurred by the NTEU, Beckley Finance Center, and Modernization and Information Technology Services organization staff to support the HRIF Program during FYs 2002 and 2003.
  - D. Compared the overall administrative costs found in II.B. and II.C. to the actual amount of training funds obligated/expended during FYs 2002 and 2003 to determine the difference between the administrative costs (indirect) and the training costs (direct) for the Program.
- III. Determined whether the HRIF Program is properly aligned with current Federal Government rules and policies, and other IRS programs governing career development and Strategic Learning Management.
- A. Interviewed key IRS personnel and reviewed current Federal Government policy, programs, and documents integral to IRS Strategic Learning Management initiatives.
  - B. Identified inconsistencies between the HRIF Program goals, objectives, and methodologies and those of other Federal Government and Service-wide strategic learning programs.
  - C. Evaluated problems and ineffective processes identified in III.B. that may adversely affect the overall success of IRS' Strategic Learning Management initiatives to determine cost-effective solutions.

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<sup>5</sup> A measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FYs 2002 and 2003, 1 FTE was equal to 2,088 hours.

**The Human Resources Investment Fund Is Not a Cost-Effective Method  
of Providing Tuition Assistance**

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**Appendix II**

**Major Contributors to This Report**

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Carl L. Aley, Audit Manager

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Joan R. Floyd, Senior Auditor

James M. Allen, Programmer Specialist

**The Human Resources Investment Fund Is Not a Cost-Effective Method  
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**Appendix III**

**Report Distribution List**

Office of the Commissioner – Attn: Chief of Staff C  
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Deputy Commissioner for Services and Enforcement SE  
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Audit Liaison: Chief Human Capital Officer OS:HC

## The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance

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### Appendix IV

#### Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to the Congress.

#### Type and Value of Outcome Measure:

- Funds Put to Better Use – Potential; \$353,720 for overhead and travel associated with administering the Human Resources Investment Fund (HRIF) Program (see page 10).
- Inefficient Use of Resources – Potential; \$10,334,360 for salaries associated with administering the HRIF Program (see page 10).

#### Methodology Used to Measure the Reported Benefit:

In Fiscal Year 2003, the Internal Revenue Service (IRS) spent an estimated \$2.14 million in salaries, overhead, and travel funds to administer the HRIF Program. The IRS paid 66 percent more to administer the Program than it paid in tuition reimbursements under the Program. The IRS can more effectively meet the objectives of the HRIF Program by using traditional training alternatives and eliminating the HRIF Program. We projected the \$70,744 in annual overhead and travel costs over 5 years, for a total savings of \$353,720. We also projected the \$2,066,872 in annual salary costs over 5 years, for a total inefficient use of resources of \$10,334,360.

The Human Resources Investment Fund Is Not a Cost-Effective Method  
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Appendix V

Management's Response to the Draft Report



CHIEF  
HUMAN CAPITAL OFFICER

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

RECEIVED  
MAR 24 2005

MAR 18 2005

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR  
TAX ADMINISTRATION

FROM: Beverly Ortega Babers *BOB*  
Chief Human Capital Officer

SUBJECT: TIGTA Draft Audit Report #200310034 – "The Human  
Resources Investment Fund Is Not a Cost-Effective  
Method of Providing Tuition Assistance"

We agree that the Human Resources Investment Fund (HRIF) is not the most cost-effective method of providing tuition assistance to IRS employees. This program was developed jointly with the National Treasury Employees Union (NTEU) as part of the 1999 IRS Restructuring Agreement. The HRIF is viewed as a "win-win" arrangement that has allowed many employees to train for "critical need" jobs in the IRS. The HRIF program has been administered to ensure equitable opportunity for all employees and compliance with the union contract.

We agree with the first recommendation in the audit report and will ensure that the HRIF database has complete and accurate information. However, as noted in the report, the administration of the HRIF is not cost effective. Thus, the recommended review of all incomplete records from FY 2000 may be cost prohibitive and yield only marginal returns. Therefore, we will review and update records from FY 2004 and FY 2003 and will request reimbursement from those employees for failed/incomplete courses, as appropriate. We will conduct a cost/benefit analysis from this review and proceed with the examination of additional years if the result is positive.

We agree with the second recommendation in the audit report and we will consider eliminating the HRIF program and providing tuition assistance through alternative means. While the recommended outright elimination of the HRIF is subject to negotiation with NTEU, we will assess all available options and make new recommendations in the upcoming contract negotiations for June 2006 implementation. We will utilize the Enterprise Learning Management System (ELMS) to manage the program beginning in FY 2006.

While we believe that these actions will help reduce program administrative costs, we do not concur with the projected \$10.7M in savings that would accrue in five years from the elimination of the HRIF. Much of this estimate reflects the cost of processing

## The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance

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training requests in addition to HRIF program administration. Even though these costs would be reduced using a more streamlined distribution method, they would still be applicable and should be factored into the analysis of any alternative process. The stated savings estimate should be reduced to account for these processing costs.

If you have any questions, please contact Linda McCullar, Director, Leadership and Education Division at (202) 283-9209.

Attachment

## The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance

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TIGTA Draft Audit Report #200310034

The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance

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**Recommendation 1:** The Chief Human Capital Officer should ensure that the HRIF Program database has complete and accurate information including the grade and/or status for all courses approved by the HRIF Program since FY 2000. For courses which were failed and /or not completed, the IRS should request reimbursement from employees as appropriate.

**Corrective Action 1:**

An action plan to update the database for FY 2004 and FY 2003 will be developed and presented to the Learning & Education Policy Sub-council (composed of all Business Unit Training Directors). Spreadsheets with the missing grade fields will be sent to the embedded Learning and Education Divisions for update. We will seek reimbursement for all students who failed or did not complete their courses. A cost/benefit analysis will be conducted regarding the administrative cost to update the FY 2004/2003 information and the resulting benefit derived from successfully identifying delinquent students. Further action will be contingent on positive results from this analysis.

**Proposed Completion Dates:**

- **May 13, 2005** - Present Action Plan to the Learning & Education Policy Sub-council.
- **June 1, 2005** - Distribute spreadsheets to the Business Units identifying database content for examination and potential corrective action.
- **September 1, 2005** - Complete the database update.
- **September 23, 2005** - Complete FY 2004/2003 cost/benefit analysis and report to L&E Policy Sub-council.

**Responsible Official:** Director of the HCO Leadership and Education Division and Business Unit Counterparts

**Recommendation 2:** The Chief Human Capital Officer should consider eliminating the HRIF Program and provide tuition assistance through alternative means such as the IDP process and the CTAP. The success of this approach should be tracked through the IRS' official training record keeping system, the ELMS.

**Corrective Action 2:** We agree that a tuition assistance program that is less resource intensive is a preferable alternative to the current Human Resources Investment Fund (HRIF). However, we are working under a contractual agreement with the National Treasury Employees Union (NTEU). This agreement requires that we continue the program under its current structure through FY 2006. We will utilize the new Enterprise

## The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance

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TIGTA Draft Audit Report #200310034

The Human Resources Investment Fund Is Not a Cost-Effective Method of Providing Tuition Assistance

Learning Management System (ELMS) to manage the program in FY 2006. This will result in a significant improvement in our ability to maintain a complete and accurate database. In addition, this should reduce the amount of manual processing time.

For FY 2007, we intend to refine the current structure of the HRIF. While the recommended outright elimination of the HRIF is subject to negotiation with NTEU, we will assess all available options and make new recommendations in the upcoming contract negotiations for June 2006 implementation.

HCO will maintain program oversight to ensure that any potential changes for providing tuition assistance to IRS employees is delivered in a fair and equitable manner.

### **Proposed Completion Dates:**

- **April 4, 2005** - Utilize the new Enterprise Learning Management System (ELMS) to monitor employee enrollment and track/record completions.
- **June 6, 2005** - Begin assessing all available options for a more cost effective tuition assistance program
- **September 23, 2005** - Present HRIF alternatives to L&E Policy Sub-council
- **October 12, 2005** - Reach consensus on HRIF alternative decision through the L&E Policy Sub-council
- **November 7, 2005** - Present HRIF alternative to the IRS negotiating team for proposed implementation in FY 2007.

**Responsible Official:** Director of the HCO Leadership and Education Division and Business Unit Counterparts