



*The Large and Mid-Size Business Division
Has Effectively Implemented Its Human
Capital Initiatives*

July 21, 2006

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 21, 2006

MEMORANDUM FOR COMMISSIONER, LARGE AND MID-SIZE BUSINESS DIVISION

FROM:

Michael R. Phillips
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – The Large and Mid-Size Business Division Has Effectively Implemented Its Human Capital Initiatives
(Audit # 200530033)

This report presents the results of our review to determine whether the Large and Mid-Size Business (LMSB) Division has implemented effective actions for and achieved measurable results from its strategic human capital initiatives.

Synopsis

The LMSB Division is successfully implementing its human capital initiatives and is taking adequate steps to maintain staffing levels to support workloads. The LMSB Division has followed up on recommendations made in a prior Treasury Inspector General for Tax Administration report¹ and has taken action to ensure it maintains a skilled and highly qualified staff to meet the mission of the Internal Revenue Service (IRS) and reduce taxpayer burden by providing top-quality service.

The LMSB Division hiring plan was developed to align with the strategies, goals, and priorities of the Division. Qualified applicants have been hired both internally and externally. The LMSB Division is also beginning to develop its own internal pool of qualified applicants through intern and co-op programs. The LMSB Division is working with the IRS Human Capital Office to develop competency models for the majority of positions within the LMSB Division. Once these

¹ *Management Advisory Report: Significant Efforts Have Been Made to Address the Large and Mid-Size Business Division's Human Capital Concerns, but a Formal Workforce Planning Model Has Not Been Developed* (Reference Number 2001-30-137, dated August 2001).



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models are completed, they will enable the LMSB Division to conduct workload studies for the next 4 to 5 years.

Training is provided to employees consistently and timely. The LMSB Division uses a coaching program to transfer the knowledge of its experienced staff to its newly hired employees. Succession planning is a priority for the LMSB Division because over 50 percent of its management and executive staff will be eligible for retirement by October 2008. The LMSB Division has taken the initiative to develop its own Succession Planning Model to prepare for these future vacancies. Additionally, the LMSB Division continues to improve upon its communications with all levels of employees.

Recommendations

We made no recommendations in this report because the LMSB Division effectively implemented its human capital initiatives. LMSB Division management reviewed the draft report and concurred with its contents. Because there were no recommendations requiring a formal response, the LMSB Division agreed to the issuance of the report with no formal written response.

Copies of this report are also being sent to IRS officials affected by the report finding. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-8500.



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Abbreviations

GS	General Schedule
HCAAF	Human Capital Assessment and Accountability Framework
IRS	Internal Revenue Service
LMSB	Large and Mid-Size Business



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Background

The President's Management Agenda identifies the strategic management of human capital as one of five priority efforts required to implement the Federal Government's management reform plan. The Office of Personnel Management is leading the Federal Government's Strategic Management of Human Capital Initiative and has produced a Human Capital Assessment and Accountability Framework (HCAAF) that guides agencies in establishing world-class human capital management systems. The Internal Revenue Service (IRS) is using the HCAAF and the Human Capital Standards for Success, a tool for measuring success in human capital management.

One of the standards of the HCAAF is workforce planning, which is the process of analyzing an organization's future staffing needs and developing plans to satisfy those needs. The objective of the process is to ensure information is provided to determine the right combinations and amounts of training, recruiting, and work/life programs needed to build the workforce to accomplish program goals and objectives. Workforce planning is a continuous process and should be done concurrently with the development of an organization's strategic plan.

The IRS faces a very challenging external human capital environment. This environment is characterized by more complex work, more pressure for improved service and performance, competition for knowledge workers, and job entrants with different career expectations. To be effective, the IRS human capital strategy must address each of these factors.

The Large and Mid-Size Business (LMSB) Division is continuing to lose highly skilled technical employees, primarily through retirement, and is replacing fewer technical employees than have separated. Since June 2000, 868 revenue agents have separated from the LMSB Division. By October 1, 2007, 43 percent of the LMSB Division's technical workforce, 56 percent of team managers, and 61 percent of senior managers will be eligible for retirement. Historically, 18 percent of revenue agents who are eligible to retire elect to do so in the year in which they become eligible. Revenue agents who do not choose to retire remain with the IRS an average of 3.1 years after eligibility. According to the LMSB Division's Fiscal Year 2006 Strategic Assessment, revenue agents comprise 76 percent¹ of the LMSB Division workforce.

The future success of the LMSB Division is dependent upon ongoing efforts to replenish the workforce, provide education and training, and provide work inventory more effectively. Additionally, communication of workforce plans to employees and stakeholders is essential to the success of the strategic management of human capital. According to a prior Treasury

¹ Based upon LMSB Division workforce statistics from November 2003.



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Inspector General for Tax Administration report,² successful implementation of the LMSB Division's human capital strategy will require improvements.

This review was performed at the LMSB Division in Washington, D.C., during the period October 2005 through April 2006. 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.

² *Management Advisory Report: Significant Efforts Have Been Made to Address the Large and Mid-Size Business Division's Human Capital Concerns, but a Formal Workforce Planning Model Has Not Been Developed* (Reference Number 2001-30-137, dated August 2001).



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Results of Review

***The Large and Mid-Size Business Division Is Successfully
Implementing Its Human Capital Initiatives***

The LMSB Division is successfully implementing its human capital initiatives and is taking adequate steps to maintain staffing levels to support workloads. The LMSB Division has followed up on recommendations made in our prior report and has taken action to ensure it maintains a skilled and highly qualified staff to meet the mission of the IRS.

Our prior report recommended the LMSB Division develop a comprehensive workforce planning model. The LMSB Division conducts workload studies to ensure domestic and international agents are placed in geographical areas where they are needed. The strategic planning process includes a review of all human capital data including retirement trends, skill levels, location of the workforce, and gaps in skills among the technical employees. The LMSB Division has nearly completed competency matrixes that will identify those skills needed for the Division to maintain a skilled workforce of employees who are deployed to examine those returns with the highest risk for noncompliance.

Additionally, we recommended the Deputy Commissioner, LMSB Division, whose responsibilities and authorities include integrating strategic workforce issues with the strategic management and budget process, be placed in charge of the human capital aspect of the LMSB Division. The Commissioner, LMSB Division, instead placed the Director, Management and Finance, in charge of the overall human capital initiatives. This has been successful in ensuring the human capital initiatives continue to be met.

The LMSB Division continues to attract and recruit a skilled workforce

The LMSB Division hiring plan was developed to align with the strategies, goals, and priorities of the Division. Workforce planning begins with the budgeting process and the amount of money requested and received by the LMSB Division to fulfill its human capital needs. The Workload Study Plan captures information on where the work is located in the LMSB Division and the number of employees available to perform that work. The Workload Study Plan is used to determine areas where hiring is needed and where personnel shortages could occur due to potential retirements.

The hiring plan lists the staffing needs and related locations within the LMSB Division, focusing on internal and external applicants. For external applicants, the LMSB Division uses USAJOBS (a public Internet site) in connection with Career Connector, which is an automated applicant management system for applicants to IRS positions. The LMSB Division worked with the IRS



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Human Capital Office to modify the system to include questions that pertain to the needs of the LMSB Division. These questions allow the LMSB Division to rank only those applicants that are qualified for each listed position. The system currently ranks applicants for revenue agent, international specialist, and engineer positions. The LMSB Division is modifying the system to rank other specialty positions for recruitment.

The LMSB Division tracks both the new applicants hired and those that declined employment offers. The LMSB Division uses this information to determine where to focus future recruitment efforts. Hiring plans are also coordinated with the LMSB Division Equal Employment Office to ensure diversity is met when identifying new applicants.

The LMSB Division hires most of its current applicants at a General Schedule (GS)-13,³ step 1 level or higher, with a Master's degree or applicable experience. The LMSB Division recruits most of its internal applicants from the Small Business/Self-Employed Division, by offering GS-13 promotions to selected employees who are currently in GS-12 positions.

Hiring begins with an internal announcement for positions, followed by an external announcement. Announcements can be open for specific time periods or remain open indefinitely until enough applicants are obtained. The LMSB Division has not encountered any problems with attracting qualified candidates. Internally, the LMSB Division has the highest grade structure of any IRS function. Externally, high-caliber applicants are attracted because the LMSB Division can offer more job security, a 40-hour work week, more control of the person's job environment, and other work/life quality issues.

Additionally, the LMSB Division continues to look at other methods for developing its own internal pool of qualified applicants. For example, in Fiscal Year 2006, the LMSB Division is trying to hire 40 to 50 interns at a GS-9 level. Also, the LMSB Division is working on hiring co-ops that would start at a GS-7 level.

Development of competency models will assist in future workload studies

The LMSB Division is working with the IRS Human Capital Office on competency models. This process began in May 2004 to determine the competencies for the revenue agent and specialty positions. The results of these models should cover most job series in the LMSB Division. Completion of the models will assist the LMSB Division in conducting workload studies for the next 4 to 5 years.

Questionnaires and surveys were used to develop the competency matrix. They were drafted with input from the Office of Personnel Management, human capital resource experts from the LMSB Division and the IRS Human Capital Office, and revenue agents and managers in the

³ The GS is the main pay system of the Federal Government and covers most positions. The GS consists of 15 grades, each broadly defined by law in terms of difficulty and responsibility of the work and the qualifications required for its performance.



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LMSB Division and also in accordance with guidance from psychologists. The surveys commented on the overall job analysis, skills required for current jobs, skills that may be required for future jobs, supervisory skill needs, and skills currently possessed by the workforce.

The Quality Assurance and Performance Management office is working with the LMSB Division embedded Human Resource teams to review the data from these surveys. The LMSB Division anticipates that a final report will be available soon.

The training program continues to provide consistent and timely courses to employees

The LMSB Division's education process is designed to identify employee training needs and match those needs with specific training courses. While continuing to use classroom training, the LMSB Division also promotes the use of computer-related learning materials to deliver training and meet training needs consistently and timely. The LMSB Division uses two online training systems to deliver its Continuing Professional Education. Also, the LMSB Division makes use of Intranet/Internet information, satellite broadcasting, interactive television, Net-meeting,⁴ and CD-ROM learning modules to share knowledge within its organization.

All LMSB Division newly hired employees participate in a coaching program, which is designed to transfer skills and knowledge from the experienced revenue agents to the newly hired employees. The coach and trainee work together to develop an individualized training plan based on the needs of each new employee.

The succession planning model is in development

Succession planning is a priority for the LMSB Division. Over 50 percent of the management staff will be eligible to retire by October 2008. An IRS task force is reviewing succession planning IRS-wide. However, the LMSB Division is conducting its own study to ensure the LMSB Division has qualified individuals to promote to management. This succession planning model is scheduled for completion by the end of December 2006. The Division is using three programs to develop its management cadre: Executive Readiness, Senior Management Readiness, and Aspiring Team Manager.

Communication continues to remain a priority for management and employees

Effective communication is an important part of the human capital management process. The LMSB Division recognized the need for changes to its communication process and conducted an internal review in Calendar Year 2003. The recommendations of that review were used to focus communication with an emphasis on direct message delivery from employees' immediate

⁴ A software application for audio and video conferencing. NetMeeting offers sharing of desktop video, audio, chat, and file-transfer functionality.



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managers. Although improvement is being made, the LMSB Division recognizes and supports the need to continually improve its communication capabilities.

The LMSB Division has developed a comprehensive Strategic Communication Plan, which provides for the short- and long-term objectives and strategies of the LMSB Division's formal and informal internal communication program. The model is built around four communication goals:

- Communication practices reflect an organizational commitment to information sharing.
- Communication makes use of effective, well-managed, well-integrated channels.
- Communication reflects clarity of purpose and message.
- Communication is measured regularly for impact and effectiveness.

The Commissioner and Deputy Commissioner of the LMSB Division use multiple mechanisms to communicate throughout the Division. Some of these mechanisms include executive leadership team meetings, site visits to industry headquarters offices, interactive video broadcasts for all managers, and senior management meetings. Additional communication to employees is provided through voice mail messages, Commissioner memoranda, the LMSB Division web site, the semimonthly LMSB Division news briefs, and the managers "Red Book" alert. Also, a Field Focus Guide is developed yearly to communicate priorities to front-line employees.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether the LMSB Division has implemented effective actions for and achieved measurable results from its strategic human capital initiatives. Specifically, we determined whether the LMSB Division is effectively managing human capital needs to recruit and retain a highly qualified, skilled, and satisfied workforce to sufficiently manage the risk of the erosion of its ability to provide customer service and take necessary effective compliance actions. Specifically, we:

- I. Determined whether the LMSB Division has created and implemented a workforce plan to identify the numbers and types of employees needed currently and in the future to accomplish organizational objectives.
 - A. Determined whether the LMSB Division monitored resource needs and determined where additional resources are needed to successfully achieve business results in light of the high attrition rate.
 - B. Determined what oversight the LMSB Division Human Resource function received from the IRS Human Capital Office with regard to workforce planning, recruitment, training, and succession planning.
 - C. Evaluated the workforce planning strategy to determine whether it identified current and future human capital needs to rapidly identify trends and changes to respond and act effectively.
- II. Determined whether management in the LMSB Division has provided a strategy to build teamwork, communicate the LMSB Division mission and objectives to all employees, and provide a system to receive feedback from all levels of employees.
 - A. Evaluated how feedback is received and used by senior management.
 - B. Reviewed the LMSB Division's communication plan as it pertains to human capital issues.
- III. Determined whether the recruitment and staffing process provides the organization with qualified staff to meet the needs of line management and support their efforts to achieve organizational objectives.
 - A. Determined whether the LMSB Division has developed and evaluated the skills and competency base needed from its current and future workforces.



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- B. Determined whether a strategy for filling needs via recruitment, succession planning, or restructuring has been completed.
- C. Determined the impact of staffing shortages and subsequent hiring from other business divisions, specifically on the Small Business/Self-Employed Division.
- IV. Determined whether training and employee development plans accommodate competency and career growth of newly hired employees and the existing workforce for all occupations.
 - A. Obtained and reviewed any formal training and professional development strategy.
 - B. Determined whether the LMSB Division identified the roles, skills, and core competencies needed to support its organizational objectives and goals.
 - C. Evaluated the LMSB Division's efforts to develop alternatives for employee learning and development and to implement improvements to close critical competency gaps.
- V. Determined what processes or programs are in place or in development to retain and sustain a high-performing workforce.
 - A. Determined whether the LMSB Division identified the work/life factors, such as pay-banding¹ and coaching/mentoring, likely to influence retention and workforce performance in the LMSB Division.
 - B. Determined whether performance incentives are in place and whether these incentives were effective to maintain a highly skilled workforce.
- VI. Determined whether the Human Resources Information System² meets user needs for decision making.
 - A. Determined whether an evaluation process is in place to determine progress, make midcourse corrections, and fix accountability for achieving desired outcomes.
 - B. Determined whether there is a measurement system in place that provides regular information about key workforce aspects (such as recruitment, retention, morale, commitment, and training and development) as compared to desired outcomes.

¹ Pay-banding, also known as broad-banding or grade-banding, involves the consolidation of a large number of pay grades into a few broad bands, typically four or five. The main purpose of pay-banding is to simplify job classification and broaden pay ranges.

² An integrated system designed to provide information used in human resource decision making.



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- VII. Determined whether LMSB Division management completed the corrective actions from the prior Treasury Inspector General for Tax Administration report.³

³ *Management Advisory Report: Significant Efforts Have Been Made to Address the Large and Mid-Size Business Division's Human Capital Concerns, but a Formal Workforce Planning Model Has Not Been Developed* (Reference Number 2001-30-137, dated August 2001).



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner, Large and Mid-Size Business Division SE:LM
Director, Communications and Liaison, Large and Mid-Size Business Division SE:LM:CL
Director, Management and Finance, Large and Mid-Size Business Division SE:LM:M
Director, Strategy, Research, and Program Planning, Large and Mid-Size Business Division
SE:LM:SR
Chief Counsel CC
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