



*Progress Has Been Made, but Important
Work Must Be Completed to Ensure
Timely Identification of Future Leaders*

June 26, 2008

Reference Number: 2008-10-132

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.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 26, 2008

MEMORANDUM FOR INTERNAL REVENUE SERVICE HUMAN CAPITAL OFFICER

Nancy A. Nakamura

FROM: (for) Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Progress Has Been Made, but Important Work
Must Be Completed to Ensure Timely Identification of Future Leaders
(Audit # 200710044)

This report presents the results of our review to assess the progress of the Human Capital Office (HCO) in developing and overseeing a succession planning program that ensures the timely identification of qualified Internal Revenue Service (IRS) candidates for leadership positions and the continuity of the IRS leadership workforce. This review is part of the Treasury Inspector General for Tax Administration Fiscal Year 2008 Annual Audit Plan coverage under the major management challenge of Human Capital and is one of several audits planned to assess how the IRS is addressing the Human Capital management challenge.

Impact on the Taxpayer

The potential loss of a large number of its leaders within the next several years increases the importance of the IRS having a process in place to fill anticipated vacancies quickly and effectively. To that end, the IRS has begun development of a leadership succession program. However, it needs to complete significant work to ensure that future leaders are identified and developed. An effective leadership succession program would enable IRS management to make informed decisions to ensure that upcoming leadership vacancies are filled in a timely manner with highly qualified leaders who can address the challenges of the future, which will help to preserve public confidence in the IRS' ability to fulfill its mission.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Synopsis

One of an organization's most important assets is its leadership. Through creation of a leadership succession environment, organizations are better able to maintain internal continuity and stability. The IRS projects that almost 51 percent of its executives and managers will be eligible to retire by the end of 2010. Leadership succession is critical to the IRS because leaders in the future will need to 1) be more proactive, 2) embrace change, 3) create and motivate employees around a vision, and 4) think on a larger scale.

The IRS has made progress in the development of a leadership succession program that will assist in identifying qualified individuals to fill future leadership positions. Specifically, under the direction of the HCO, the IRS piloted a new process to provide a standardized, ongoing method to identify leadership potential in 2006 and took actions to implement this succession planning process throughout the agency in 2007. In addition, the HCO redesigned leadership training in 2007 to prepare highly qualified managers for future executive positions and plans to revise additional leadership training in 2008. Further, HCO management recently created and is staffing a Leadership Succession Planning program office to provide increased, dedicated oversight of leadership succession within the IRS.

We agree that additional focus is needed to ensure that the IRS can effectively fill leadership positions that will become available with the retirement of its current managers and executives. Significant work needs to be completed to ensure that future leaders are identified and developed. For example, the IRS does not have a well-documented leadership succession plan that specifies the key actions that will be taken in this area and how these actions will, when implemented, work together as a clearly defined strategy. In addition, some levels of management have not completed the leadership succession program. Also, the IRS has not determined the overall leadership strength of each operating division for future front-line manager through executive leadership positions. Further, the IRS has not fully developed performance measures to assist senior management in assessing whether leadership succession planning efforts are effective. Until these actions are taken, the IRS will have difficulty assessing the timeliness of its progress in identifying highly qualified managers to fill upcoming leadership vacancies and ensure the continuity of its operations.

Recommendations

We recommended that the IRS Human Capital Officer develop a written strategic leadership succession plan that documents the high-level succession strategy and how the strategy, when implemented, will work with other human capital efforts. In addition, we recommended that the IRS Human Capital Officer prepare a plan that specifies the key activities that should be completed in the short term to ensure that the leadership succession program continues to move



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

forward, including actions planned, individuals assigned, responsible management officials, and methods to monitor and report performance.

Response

The IRS Human Capital Officer agreed with all of our recommendations and provided planned actions to address them. These actions include developing a strategic leadership succession plan that documents a high-level succession strategy, developing leadership succession planning performance measures, and preparing a short-term plan to ensure the leadership succession program continues to move forward. The IRS Human Capital Officer also provided additional perspective on several accomplishments in the IRS' leadership succession program that were not presented in our draft report. Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. 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.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Table of Contents

Background	Page 1
Results of Review	Page 4
Identification of Future Leaders Has Begun, but Additional Actions Will Help Prepare for Upcoming Retirements.....	Page 4
<u>Recommendation 1</u> :.....	Page 9
<u>Recommendation 2</u> :.....	Page 10
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 11
Appendix II – Major Contributors to This Report	Page 13
Appendix III – Report Distribution List	Page 14
Appendix IV – Leadership Succession Review Process Overview	Page 15
Appendix V – Management Participation in the Leadership Succession Review.....	Page 17
Appendix VI – Management’s Response to the Draft Report	Page 19



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Abbreviations

HCO	Human Capital Office
IRS	Internal Revenue Service



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Background

The mission of the Internal Revenue Service (IRS) is to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. The IRS cannot achieve this mission without a highly skilled workforce. To provide human capital¹ strategies and tools for recruiting, hiring, developing, retaining, and transitioning a highly skilled and high-performing workforce, the IRS created a Human Capital Office (HCO) in 2004.

One of an organization's most important assets is its leadership. Thus, the HCO has focused on creating a leadership succession program. Succession planning is defined as the ability to identify qualified candidates for a position prior to the position becoming vacant. By creating a leadership succession environment, organizations are better able to maintain internal continuity and stability.

Leadership succession is crucial for the Federal Government and the IRS for two reasons. First, many of the Federal Government's leaders will soon be eligible to retire. The Office of Personnel Management projects that more than 550,000 Federal employees—almost one-third of the entire full-time permanent workforce—will leave the Federal Government by the end of 2012 (the majority through retirement). The Office of Personnel Management further projects that nearly 40 percent of all current Federal Government employees will retire by the end of 2016.²

The IRS faces concerns similar to those of the rest of the Federal Government as it contends with the potential loss of a significant number of its current leaders by the end of 2010. As shown in Figure 1, the IRS estimates that an ever-increasing number of its leaders will be eligible to retire over the next few years. It projects that almost 51 percent of its executives and managers will be eligible to retire by the end of 2010.

The IRS projects that almost 51 percent of its executives and managers will be eligible to retire by the end of 2010.

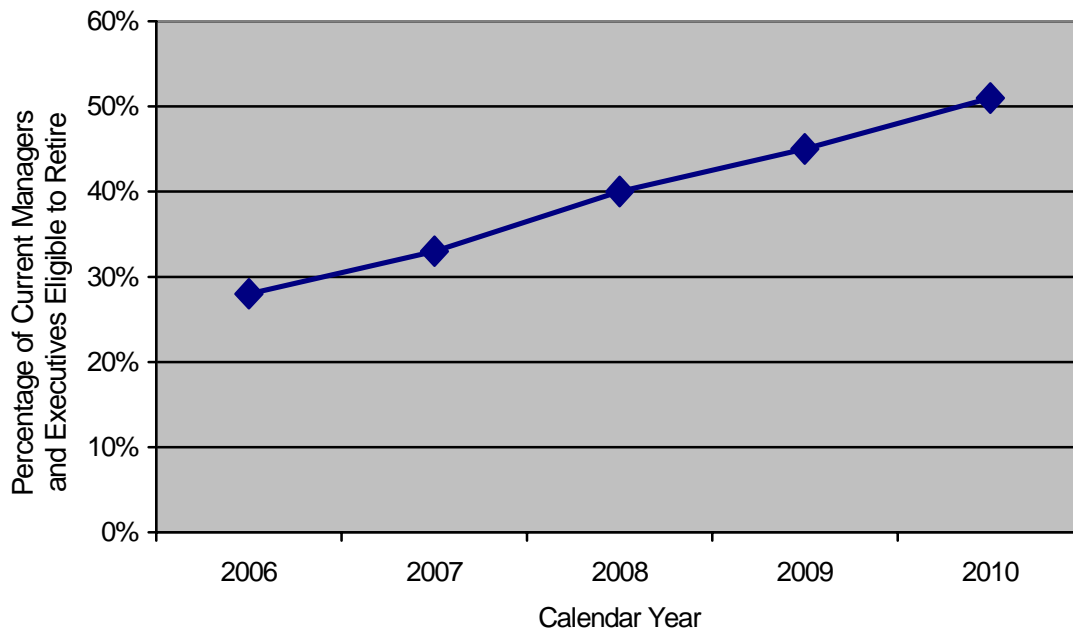
¹ The term "human capital" is used to describe the skills, abilities, and contributions of the people in an agency.

² The Office of Personnel Management projections were based on full-time permanent Federal Government employees on rolls as of October 1, 2006.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Figure 1: IRS Leadership Retirement Eligibility 2006-2010



Source: IRS Response for Information for Treasury Succession Management Plan.³

A second reason that leadership succession is critical to the IRS is that leaders in the future will need to 1) be more proactive, 2) embrace change, 3) create and motivate employees around a vision, and 4) think on a larger scale. All of this might need to be accomplished in less time and with fewer resources than in the past. The change in focus can already be seen in the IRS with several transformational projects underway. For example, the IRS has developed a 5-year strategic plan for enhancing the services it provides to taxpayers. In addition, the IRS is in the midst of a complex, multiyear, multibillion dollar effort to modernize its technology and related business processes. Also, the IRS is battling a tax gap,⁴ as well as implementing and adjusting to changes in its managerial pay structure.

The IRS has recognized the criticality of succession planning and has acted to identify potential qualified leaders to ensure continuity and stability. Starting in 2001, initial efforts concerned developing training programs, known as readiness programs, and focused on the ability to replace top executives, senior managers, and front-line managers within the IRS. More recent efforts have expanded succession planning to be more formal and include senior, and in some instances, front-line, department, and non-bargaining unit management officials.

³ We did not verify the information provided by the HCO.

⁴ The tax gap is the difference between taxes that are legally owed and taxes that are paid on time.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

This audit was conducted while changes were being made to the leadership succession program. Any changes that have occurred since we concluded our analyses in February 2008 are not reflected in this report. As a result, this report might not reflect the most current status of the IRS leadership succession program.

This review is part of the Treasury Inspector General for Tax Administration Fiscal Year 2008 Annual Audit Plan coverage under the major management 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 at the HCO Leadership, Education, and Delivery Services Division in Washington, D.C., during the period September 2007 through February 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Results of Review

Identification of Future Leaders Has Begun, but Additional Actions Will Help Prepare for Upcoming Retirements

The IRS has made progress in the development of a leadership succession program that will assist in identifying qualified individuals to fill future leadership positions. This program is consistent with private sector practices and some Federal Government guidance on human capital management. Specifically, under the direction of the HCO, the IRS piloted a new process to provide a standardized, ongoing method to identify leadership potential in 2006 and took actions to implement this succession planning process throughout the agency in 2007. In addition, the HCO redesigned leadership training in 2007 to prepare highly qualified managers for future executive positions and plans to revise additional leadership training in 2008. Further, HCO management indicated that they recently created and are staffing the Leadership Succession Planning program office to provide increased, dedicated oversight of leadership succession within the IRS.

We agree that additional focus is needed to ensure that the IRS can effectively fill leadership positions that will become available with the retirement of its current managers and executives. Significant work needs to be completed to ensure that future leaders are identified and developed. For example, the IRS does not have a well-documented leadership succession plan that specifies the key actions that will be taken in this area and how these actions will, when implemented, work together as a clearly defined strategy. In addition, some levels of management have not completed the leadership succession program. Also, the IRS has not determined the overall leadership strength of each operating division for future front-line manager through executive leadership positions. Further, the IRS has not fully developed performance measures to assist senior management in assessing whether leadership succession planning efforts are effective. Until these actions are taken, the IRS will have difficulty assessing the timeliness of its progress in identifying highly qualified managers to fill upcoming leadership vacancies and ensure the continuity of its operations.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

The HCO has made progress in the development of a leadership succession program

According to HCO management, the two key components for IRS succession planning are 1) IRS readiness programs, including the Candidate Development Program,⁵ and 2) the Leadership Succession Review, which is designed to help identify individuals with leadership capabilities at earlier stages in the IRS leadership career path. Since 2006, the HCO has been revising various leadership development training courses and has overseen development of the Leadership Succession Review and its implementation throughout the IRS to varying levels of management.

The first key component for IRS succession planning is leadership development training, referred to as readiness programs. The readiness programs are agency-wide programs initiated in 2001. They represent the IRS' initial attempt at formally identifying and preparing individuals seeking leadership positions. The readiness programs are the focal point for developing high-potential employees for leadership positions and bridging the large developmental gap between each level of leadership through programs directed at the appropriate IRS Leadership Competencies.

The IRS has taken some actions and plans to take additional actions to revise leadership development training to better prepare individuals to compete for front-line through executive-level management positions. Specifically, during 2007, HCO management redesigned the Candidate Development Program to place greater emphasis on experience-based training rather than pure classroom discussion. These changes were completed in 2007 and are being piloted in the current Candidate Development Program class that commenced on December 4, 2007. In addition, HCO management stated that they plan to revise additional readiness programs in 2008. The objective of these revisions is to align the programs with organizational needs and the redesigned Candidate Development Program. However, no final plans had been approved by executive management by the end of our fieldwork.

The second key component for IRS succession planning is the Leadership Succession Review. To better prepare for business continuity at the leadership level and address organizational needs in a timely, efficient manner, the HCO oversaw the development and implementation of the Leadership Succession Review process.⁶

The Leadership Succession Review provides an opportunity for managers to become actively involved in their development while offering the IRS a standard, ongoing process for identifying leadership potential at all management levels. Although the Leadership Succession Review process is relatively new for the IRS, it is a common best practice among leading organizations.

⁵ Candidate Development Program training is a formalized training program for individuals seeking senior executive positions within the IRS.

⁶ See Appendix IV for an overview of the Leadership Succession Review process.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Key objectives of the Leadership Succession Review include:

- Providing an assessment of current leadership competencies.
- Providing feedback to all managers on their leadership abilities with respect to the 21 IRS Leadership Competencies.
- Identifying individuals for succession planning and assessing their readiness for leadership positions.
- Providing customized development plans for all managers.

With the assistance of an outside vendor, in 2006, the HCO developed the Leadership Succession Review process and piloted it in three IRS business units to a limited number of management positions.⁷ Based on feedback received about the pilot, in March 2007, IRS senior executive management approved agency-wide implementation of the Leadership Succession Review. To provide flexibility to each business unit based on its immediate succession needs, the IRS allowed business units to implement the Leadership Succession Review process to their senior managers only or to expand implementation to additional, lower level managers. HCO management informed us that implementation of the Leadership Succession Review to the varying management levels had been completed in the majority of the business units as of January 16, 2008, and was still in progress in the remaining business units at the end of our fieldwork.⁸

To obtain feedback on the progress of the agency-wide implementation of the Leadership Succession Review process, we contacted applicable management officials coordinating the implementation within the Office of Appeals, the Wage and Investment Division, and the Large and Mid-Size Business Division. One Large and Mid-Size Business Division official stated that the Leadership Succession Review process was an improvement over the prior succession planning efforts and required all managers to participate in the process. One Office of Appeals official cited the Leadership Succession Review as being more formalized and structured compared to prior succession planning efforts. Further, the Large and Mid-Size Business Division official stated that the Leadership Succession Review process might integrate leadership assessment, applicable developmental training, and eventual selection of an individual for a management position into an effective succession planning process.

⁷ The Leadership Succession Review process was piloted in the following IRS offices: 1) Wage and Investment Division (all front-line and senior managers), 2) Modernization and Information Technology Services organization (limited to front-line and senior managers in the Application Domain unit), and 3) Small Business/Self-Employed Division (limited to senior managers only in the Examination function).

⁸ See Appendix V for additional details on the management participation level(s) and status of the Leadership Succession Review implementation in each business unit.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Due to a significant number of expected retirements and future leadership challenges, management needs to complete additional actions to help assure continuity of leadership and to evaluate the success of the leadership succession program

While the HCO has taken positive steps in implementing an IRS leadership succession program, additional actions are necessary to ensure that the IRS can fully identify qualified IRS candidates for future leadership positions and assess its leadership succession efforts. If these actions are not taken, it will be difficult for the IRS to assess the progress of its leadership succession efforts, and more importantly, it will be difficult for the IRS to determine whether it can identify potential future leaders with the skills to address the future challenges in a timely manner.

- **The HCO should prepare a written leadership succession strategy and establish performance measures to evaluate the success of its efforts in this area.** Best practice human capital guidance for Federal Government agencies includes the need for a written leadership development strategy, as well as the need to document and track measures of success. While the IRS has developed a Human Capital Strategic Plan and a Human Capital Strategic Implementation Plan that link its human capital planning efforts with the IRS Strategic Plan, these documents do not sufficiently describe the information we believe should be included in a documented leadership succession strategic plan.

The IRS does not have a well-documented leadership succession plan that shows the key actions that will be taken in this area and how these actions will, when implemented, work together as a clearly defined strategy with other human capital efforts. For example, information gathered by management during leadership succession efforts could be used to identify potential skills gaps and recruitment needs.⁹ In addition, HCO management does not have a well-documented plan that describes the actions necessary to ensure the timely identification of potential leadership needs.

HCO management recognized the need for a leadership succession plan and originally considered creating this document with the help of an outside vendor during development of the Leadership Succession Review process. HCO management informed us that they are currently working on this type of strategic document and expect to complete it in Fiscal Year 2008. However, no plan was available for our review by the end of our fieldwork.

The IRS also has not fully developed performance measures to assist senior management in assessing whether leadership succession planning efforts will result in the timely identification of highly qualified managers. HCO management recognized the need for these types of measures and provided us with two draft measures related to leadership succession. However, these measures had not been approved by the end of our fieldwork. Without development and implementation of clear measures linked to succession management, the

⁹ We currently have reviews ongoing concerning skills gaps and the IRS' recruiting strategy.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

IRS will be unable to fully evaluate the success of its efforts to ensure the timely identification of qualified candidates for available IRS leadership positions expected in the near future due to retirement.

- **All managerial levels need to complete the Leadership Succession Review.** Some levels of management have not completed the Leadership Succession Review, and the IRS has not fully analyzed the data collected to date to assess each operating division's future leadership positions (from front-line manager through the executive level). Until all management levels have completed the Leadership Succession Review process and the results have been analyzed against potential managerial vacancies, the IRS will not have a complete baseline assessment of its potential leadership needs. In addition, the Leadership Succession Review process will be extremely important for IRS staff below the front-line manager level, so the IRS can assess its entry-level management needs. HCO management informed us that full implementation of the Leadership Succession Review to all management levels in each business unit is still in progress and might not be completed until 2010.
- **The HCO should improve the system used to capture information during the Leadership Succession Review process related to an individual's readiness for a leadership role.** The Leadership Succession Review database should be improved to enable IRS management to systemically analyze leadership strength by individual business unit and agency-wide. Currently, the information contained in the Leadership Succession Review database that tracks the leadership potential of those managers who have completed the Review process must be manually analyzed to identify business unit leadership needs. HCO management realizes that this is a shortcoming in the current database and has requested technology upgrades to the database designed to allow business unit data to be systemically rolled up for detailed analysis. However, HCO management informed us that this capability was not included in the original design of the Leadership Succession Review database and will require additional resources to complete the large amount of programming necessary to allow this type of systemic analysis.

We also believe that the HCO should review the Leadership Succession Review data in the future to provide an agency-wide perspective of the leadership strength and potential needs to assist in human capital efforts. This will provide senior executive IRS management with an overall analysis of how well the IRS is able to 1) fill future leadership positions with candidates who have the skills to lead in the future and 2) ensure the continuity of its leadership workforce. This analysis should include potential leadership needs within a business unit based on retirements and other attrition that might be addressed by highly qualified individuals from another IRS business unit. For example, one business unit might have a large number of individuals ready for advancement (in comparison to its potential vacancies), while another business unit has an insufficient number of individuals ready to fill its upcoming leadership vacancies. HCO management informed us that 1) organization-wide



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

summary data necessary for this type of analysis are not currently captured and 2) production of these data will require a large amount of programming.

These concerns were also raised by the IRS during our contacts with Office of Appeals, Wage and Investment Division, and Large and Mid-Size Business Division officials coordinating agency-wide implementation of the Leadership Succession Review process. Specifically, these officials stated that the Leadership Succession Review database should be improved to provide senior management in each business unit with systemic reports that consolidate the results of leadership assessments for their area. In addition, Office of Appeals and Large and Mid-Size Business Division officials stated that they are not aware of Leadership Succession Review information being shared across business units. Further, these officials indicated that they currently follow a manual process to determine who is required to participate in the Leadership Succession Review process and who has actually completed it.

The potential loss of a large number of its leaders within the next several years increases the importance that the IRS has a process in place to fill anticipated vacancies quickly and effectively. An effective leadership succession program would enable the IRS to make informed decisions on its future leaders, maintain operational continuity, and preserve public confidence in its ability to fulfill its mission.

Recommendations

The IRS Human Capital Officer should:

Recommendation 1: Develop a written strategic leadership succession plan (separately or as part of other human capital plans) that documents the high-level succession strategy and how the strategy, when implemented, will work with other human capital efforts. This plan should include input from the IRS business units¹⁰ and the specific performance measures that will be used to assess the overall success of leadership succession activities.

Management's Response: IRS management agreed with the recommendation. HCO management plans to develop, with input from IRS business units, a strategic leadership succession plan that documents a high-level succession strategy and how that strategy will work with other human capital efforts. In addition, HCO management, in consultation with the Office of Program Evaluation and Risk Analysis, plans to develop leadership succession planning performance measures. The measures will be presented to the IRS Human Capital Board for approval.

¹⁰ The IRS has established a Human Capital Board and sub-councils, consisting of representatives from the IRS business units, that assist in setting agency-wide human capital management strategy and fostering collaboration across organizational boundaries to ensure a coordinated approach to IRS human capital plans, policies, and practices.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Recommendation 2: Prepare a plan that specifies the key activities that should be completed in the short term to ensure that the leadership succession program continues to move forward, including actions planned, individuals assigned, responsible management officials, and methods to monitor and report performance. These should include (but should not be limited to) the following actions:

- Collecting performance data and analyzing performance measures to assist senior management in evaluating the success of leadership succession activities.
- Improving the system used to capture data related to the Leadership Succession Review to enable managers to perform a systemic review of leadership strength (at the business unit level and agency-wide) for comparison to potential managerial vacancies.
- Ensuring that the Leadership Succession Review process is expanded to better assess IRS leadership strength from the front-line through executive management levels.
- Continuing to obtain periodic feedback from the IRS business units and functional offices to determine if additional changes can be made to the Leadership Succession Review process to make it more effective and efficient.

Management's Response: IRS management agreed with the recommendation. HCO management plans to develop a plan based on input from IRS executives, an HCO formal "lessons learned" review, and our recommendations. The plan will specify key activities to be completed in the short term in order to ensure that the leadership succession program continues to move forward. The plan will include planned actions, individuals assigned, responsible management officials, and methods to monitor and report performance.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess the progress of the HCO in developing and overseeing a succession planning program that ensures the timely identification of qualified IRS candidates for leadership positions and the continuity of the IRS leadership workforce. To accomplish our objective, we:

- I. Determined the status of the IRS' leadership succession planning activities.
 - A. Interviewed HCO management to determine the roles and responsibilities of the HCO related to leadership succession planning.
 - B. Reviewed any plans/documentation outlining the HCO's strategic approach to leadership succession, including any performance indicators and coordination with IRS business units.
 - C. Determined actions taken or planned by the HCO to develop and implement a leadership succession program and identified applicable implementation dates and responsible officials.
- II. Determined whether implementation of the Leadership Succession Review¹ process met established goals.
 - A. Interviewed applicable HCO management to determine the goals and current status of the Leadership Succession Review. In addition, we determined whether the goals of the Leadership Succession Review process support the Human Capital Assessment and Accountability Framework standard for success related to leadership succession.
 - B. Reviewed documentation pertaining to the Leadership Succession Review pilot.
 - C. Assessed how the Leadership Succession Review was being tracked, measured, and monitored to ensure that it is meeting its goals and objectives.

¹ Leadership Succession Review is designed to help identify individuals with leadership capabilities at early stages in the IRS leadership career path.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

- III. Determined whether the HCO was making adequate progress in redesigning the Candidate Development Program.²
- A. Interviewed HCO management to determine the goals and time periods of the redesign of the IRS Candidate Development Program and identified any actions taken.
 - B. Assessed whether HCO management is effectively coordinating redesign efforts with other affected IRS offices.
 - C. Identified any changes made to the IRS Candidate Development Program due to the HCO leadership succession program.

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: the HCO's policies, procedures, and practices for planning, managing, and monitoring IRS efforts to identify qualified candidates for leadership positions. We evaluated these controls by interviewing management and reviewing applicable information.

² Candidate Development Program training is a formalized training program for individuals seeking senior executive positions within the IRS.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
Troy D. Paterson, Director
Jeffrey M. Jones, Audit Manager
Thomas F. Seidell, Audit Manager
Margaret A. Anketell, Lead Auditor
Kenneth C. Forbes, Senior Auditor
Marjorie A. Stephenson, Senior Auditor
Donald J. Martineau, Auditor
Carol A. Rowland, Auditor



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Deputy Commissioner for Services and Enforcement SE
Commissioner, Large and Mid-Size Business Division SE:LM
Commissioner, Small Business/Self-Employed Division SE:S
Commissioner, Tax Exempt and Government Entities Division SE:T
Commissioner, Wage and Investment Division SE:W
Chief, Appeals AP
Deputy Commissioner, Large and Mid-Size Business Division SE:LM
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Tax Exempt and Government Entities Division SE:T
Deputy Commissioner, Wage and Investment Division SE:W
IRS Deputy Human Capital Officer OS:HC
Director, Leadership, Education, and Delivery Services OS:HC:LE
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Commissioner, Large and Mid-Size Business Division SE:LM
 Commissioner, Small Business/Self-Employed Division SE:S
 Chief, Appeals AP
 IRS Human Capital Officer OS:HC
 Director, Communications and Liaison, Tax Exempt and Government Entities
 Division SE:T:CL
 Senior Operations Advisor, Wage and Investment Division SE:W:S



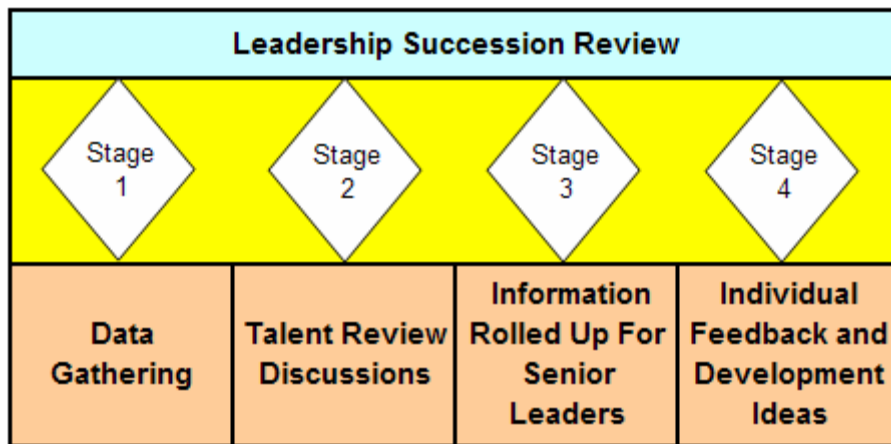
Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Appendix IV

Leadership Succession Review Process Overview

Figure 1 presents the four stages of the Leadership Succession Review process.

Figure 1: Leadership Succession Review Stages



Source: Leadership Succession Review Guide.

Stage 1 places emphasis on the *individual*. Individual managers are assessed (by themselves and their managers) on the 21 IRS Leadership Competencies. Then, the supervising manager places each individual manager that reports directly to him or her onto a Leadership Succession Review Matrix.

Stage 2 shifts the focus to the *organization*. Executives and senior managers lead meetings to discuss possible successors for the managers who report directly to them. The meeting provides a talent review of individuals and their readiness to fill leadership positions in the future. The talent review includes sharing strengths and areas for development in the context of the 21 IRS Leadership Competencies. Recommendations for leveraging and developing these competencies can also be discussed during the Stage 2 meeting.

Stage 3 remains focused on the *organization*. Executives meet with each manager that reports directly to them to discuss rolled-up information from Stage 2 meetings. The focus is to provide aggregate data and trends observed within the various organizational units.

Stage 4 shifts the focus back to the *individual*. Each individual has a candid, one-on-one conversation with his or her manager. In this conversation, the manager provides feedback regarding the data gathered in Stage 1 and the discussions held in Stages 2 and 3. The purpose is to inform the individual about suggested development for potential future leadership



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

opportunities. The feedback is intended to serve as a foundation from which to build Career Learning Plans for all managers.

Throughout the Leadership Succession Review process, managers enter the results of information gathered into the Leadership Succession Review database. After an individual completes the Leadership Succession Review process, he or she will be given one of the following ratings about readiness to advance to a higher level:

- **Ready Now** – This individual possesses the skills, competencies, and experiences necessary to advance to the next level of management at this time.
- **Ready With Development** – With the proper mix of training, education, and experiences, this individual should meet the qualifications necessary for advancement to the next level of management within 24 months.
- **Not Ready** – This individual will require more than 24 months of additional training, education, and experience before he or she possesses the skills, competencies, and qualifications necessary to advance to the next level of management.

In addition, promising future candidates who are not currently eligible for selection are monitored by management as individuals to watch for the long term. These are individuals who exhibit excellent performance in their current roles, but who lack many experiences and accomplishments to typically be considered as viable candidates. Due to positive performance trends, the individuals might be considered for accelerated development.



Appendix V

Management Participation in the Leadership Succession Review

Based on feedback received about the Leadership Succession Review pilot, in March 2007, IRS senior executive management approved agency-wide implementation of the Leadership Succession Review. To provide flexibility to each business unit based on its immediate succession needs, the IRS allowed business units to implement the Leadership Succession Review using either the full four-stage process or a modified senior-manager-only version of the Review. HCO management informed us that implementation of the Leadership Succession Review to the varying management levels had been completed in the majority of the business units as of January 16, 2008, and was still in progress in the remaining business units at the end of our fieldwork. Specific details about the business units' participation in the Leadership Succession Review process are shown in Figure 1.

Figure 1: Levels of Participation in the Leadership Succession Review

IRS Organization	Management Participation Level	Status of Leadership Succession Review Rollout¹
Wage and Investment Division	Front-line, Senior, and Department Managers	Completed
Small Business/Self-Employed Division	Senior and Department Managers	Completed
Large and Mid-Size Business Division	Senior Managers	Completed
Modernization and Information Technology Services	Front-line and Senior Managers	Completed
Human Capital Office	Front-line, Senior, and Non-Bargaining Unit Management Officials	Ongoing
Appeals	Front-line, Senior, Department, and Non-Bargaining Unit Management Officials	Completed
Tax Exempt and Government Entities Division	Front-line and Senior Managers	Ongoing

¹ Completed = HCO management informed us that the business unit had completed the Leadership Succession Review process as of January 16, 2008.

Ongoing = HCO management informed us that the Leadership Succession Review process was still in progress in the business unit and was scheduled to be completed by April 30, 2008, for Communications and Liaison and by July 30, 2008, for the remaining organizations.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

IRS Organization	Management Participation Level	Status of Leadership Succession Review Rollout
Criminal Investigation Division	Senior Manager	Completed
Communications and Liaison	Front-line and Senior Managers	Ongoing
Chief Financial Officer	Senior Managers	Completed
Agency-Wide Shared Services	Senior Managers	Completed
Office of Research, Analysis, and Statistics	To Be Determined ²	Ongoing
Taxpayer Advocate Service	Senior Managers	Completed
Commissioner's Complex ³	To Be Determined ²	Ongoing

Source: Our review of applicable documentation and discussions with HCO management officials.

² To Be Determined indicates that the organization is deciding what managerial levels to assess.

³ The Commissioner's Complex includes the Commissioner, Deputy Commissioner for Operations Support (Enterprise Portfolio and Project Management and IRS Privacy and Identity Theft), Deputy Commissioner for Services and Enforcement (front office only), Equal Employment Opportunity and Diversity office, the Executive Secretariat, and Office of Professional Responsibility.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Appendix VI

Management's Response to the Draft Report



HUMAN CAPITAL OFFICE

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

Received
06/06/2008

June 6, 2008

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *for* Robert Buggs *Robert Buggs*
IRS Human Capital Officer

SUBJECT: Draft Audit Report – Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders (Audit # 200710044)

We would like to thank the TIGTA Audit Team for its thorough job in reviewing multiple types of information and documentation about the history of the IRS Succession Planning process, including completed work for revising the Candidate Development Program and other components of the IRS Leadership Curriculum. We especially appreciate the team's willingness to consider our feedback on the draft audit report.

The IRS recognizes that leadership is one of our most important assets and that the creation of a leadership succession environment will better enable us to maintain internal continuity and stability. Accordingly, we have developed a leadership succession program that will assist us in identifying qualified individuals to fill future leadership positions. This program is well under way and we have made significant strides in our ability to effectively fill leadership positions that will become available when current managers and executives retire.

Development of the IRS Leadership Competency Model in 2001 provided a foundation for the Leadership Succession Review (LSR) process, Succession Planning as a whole, and our ability to analyze competency strengths and weaknesses for both individuals and across the Service. It has helped take our overall understanding and use of competencies and supporting behaviors in developing leaders to a new and exciting level.

The IRS has carefully considered what an effective Succession Planning process and supporting leadership curriculum should look like. We have expended significant resources in developing, piloting, and implementing a deliberate and disciplined process that involved all IRS Business Units. As a result, over 8,400 managers, non-bargaining unit employees, and bargaining unit employees have been assessed to date for their leadership readiness. Thousands of target leadership positions have been identified and we have made very good progress identifying qualified candidates and locations.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

-2-

The Business Units are able to pull information from the data base that shows readiness levels and specific sites to which they are willing to move.

IRS Business Units indicate that our overall Succession Planning process is very beneficial for current needs and future planning. Several Operating Division Commissioners stated that the IRS Leadership Succession Review (LSR) is excellent.

Although the IRS process is relatively new, we are a "trail blazer" in Succession Planning, especially within the government sector. We have received significant positive feedback from Treasury, leading to requests for benchmarking visits from other organizations such as the National Labor Relations Board and the Environmental Protection Agency. In October 2007, we presented IRS Succession Planning at a webcast at the Performance Institute that included 64 participants from government agencies. We have been invited to speak at the upcoming 10th Annual International Leadership Association Conference. We also have been invited to address the International Public Management Association for Human Resources and the Association of Government Accountants.

Although we are disappointed that more of our accomplishments were not recognized, we agree with the findings of the subject report. Accordingly, we have attached the corrective actions that we are taking to address the recommendations. By completing these corrective actions, we will improve the Succession Planning system, generate additional data that Business Unit customers can use for planning and development, and better measure overall impact.

If you have any questions, please contact me at (202) 622-7676 or David Krieg, Director, Leadership, Education and Delivery Services, at (202) 927-3956.

Attachment



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Attachment

Recommendation 1: Develop a written strategic leadership succession plan (separately or as part of other human capital plans) that documents the high-level succession strategy and how the strategy, when implemented, will work with other human capital efforts. This plan should include input from the IRS business units and the specific performance measures that will be used to assess the overall success of leadership succession activities.

Corrective Action 1: We will develop, with input from IRS business units, a strategic leadership succession plan that documents a high-level succession strategy and how that strategy, when implemented, will work with other human capital efforts.

Implementation Date: March 15, 2009

Responsible Official: IRS Human Capital Officer

Corrective Action Monitoring Plan: This corrective action will be monitored on JAMES.

Corrective Action 2: In consultation with the Office of Program Evaluation and Risk Analysis (OPERA), we will develop leadership succession planning performance measures. These measures will be presented to the IRS Human Capital Board for approval.

Implementation Date: December 15, 2008

Responsible Official: IRS Human Capital Officer

Corrective Action Monitoring Plan: This corrective action will be monitored on JAMES.

Recommendation 2: Prepare a plan that specifies the key activities that should be completed in the short term to ensure that the leadership succession program continues to move forward, including actions planned, individuals assigned, responsible management officials, and methods to monitor and report performance. These should include (but should not be limited to) the following actions:

- Collecting performance data and analyzing performance measures to assist senior management in evaluating the success of leadership succession activities.
- Improving the system used to capture data related to the Leadership Succession Review to enable managers to perform a systemic review of leadership strength (at the business unit level and agencywide) for comparison to potential managerial vacancies.



Progress Has Been Made, but Important Work Must Be Completed to Ensure Timely Identification of Future Leaders

Attachment continued

- Ensuring that the Leadership Succession Review process is expanded to better assess IRS leadership strength from the front-line through executive management levels.
- Continuing to obtain periodic feedback from the IRS business units and functional offices to determine if additional changes can be made to the Leadership Succession Review process to make it more effective and efficient.

Corrective Action: We will prepare a plan based on input from IRS executives, a formal "lessons learned" review, and TIGTA recommendations. This plan will specify the key activities to be completed in the short term in order to ensure that the leadership succession program continues to move forward. This plan will include planned actions, individuals assigned, responsible management officials, and methods to monitor and report performance.

Implementation Date: March 15, 2009

Responsible Official: IRS Human Capital Officer

Corrective Action Monitoring Plan: This corrective action will be monitored on JAMES.