



## Treasury Inspector General for Tax Administration Office of Audit

### **ADDITIONAL ACTIONS ARE NEEDED TO MEASURE AND EVALUATE THE IMPACT OF THE PAY-FOR-PERFORMANCE SYSTEM ON RECRUITING, RETAINING, AND MOTIVATING HIGHLY SKILLED LEADERS**

Issued on May 13, 2010

## Highlights

Highlights of Report Number: 2010-10-054 to the Internal Revenue Service Human Capital Officer.

### **IMPACT ON TAXPAYERS**

With an increasingly retirement-eligible managerial workforce and the work of the Internal Revenue Service (IRS) becoming more complex, it will be essential that the Pay-for-Performance System successfully accomplishes its purpose. While the IRS has started the process of gathering data on managers' perceptions of the System, it is not gathering all of the data it needs to fully evaluate the System and its impact, if any, on managers. If the IRS does not identify and adequately address concerns with the Pay-for-Performance System, it may be a negative factor for current or future leaders who serve in key roles to enable the IRS to provide American taxpayers with the high-quality service they have come to expect.

### **WHY TIGTA DID THE AUDIT**

The overall objective of this review was to determine whether the IRS Human Capital Office had established the necessary processes for assessing and monitoring the progress of the Pay-for-Performance System to ensure the System assists the IRS in recruiting, retaining, and motivating highly skilled leaders. This audit was the result of an informal suggestion from the former IRS Human Capital Officer.

### **WHAT TIGTA FOUND**

While 5 years of data are needed before the impact of the Pay-for-Performance System can be fully evaluated, the IRS has started the process of gathering data on manager perceptions of the System. In addition, as part of an interim evaluation, an IRS contractor has determined the System is not having a negative impact on the IRS managerial workforce. While these are positive initial steps, there are several actions the IRS needs to take to determine if the Pay-for-Performance System is

helping the IRS recruit, retain, and motivate a highly skilled managerial workforce.

First, an IRS contractor has noted several concerns from frontline manager survey responses, such as frontline managers being consistently less motivated, committed, and involved in the IRS mission than other managers. The contractor also observed that a large number of managers had stepped down from management positions. Additional research is needed to determine if there are explanations for these observations and if these observations are unintended consequences of the implementation of the Pay-for-Performance System. Second, the IRS is not gathering all of the data it needs to fully evaluate the System and its impact, if any, on managers. Lastly, the IRS does not have a sufficient structure in place to evaluate and address issues associated with the Pay-for-Performance System.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the IRS 1) collect additional data to assess the impact the IRS Pay-for-Performance System is having on recruiting, retaining, and motivating highly skilled leaders; 2) conduct additional research on two contractor observations; and 3) define a process where Pay-for-Performance System issues are assessed at least annually.

In their response to the report, IRS officials stated that they agreed with the recommendations in the report. They plan to gather additional information to evaluate the recruitment and retention of managers in the IRS Pay-for-Performance System; further define the process to assess, elevate, and address pay-for-performance issues; and ensure an annual overview is provided to senior leadership.

### **READ THE FULL REPORT**

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2010reports/201010054fr.pdf>.