Chairman Cherecwich, members of the Oversight Board, and distinguished panelists, on behalf of the National Treasury Employees Union (NTEU), I would like to thank you for allowing NTEU to provide our views on human capital management challenges at the IRS in the current budget environment, and in particular, suggestions on how we might motivate employees to be more productive and engaged.

Mr. Chairman, as you know, numerous anti-federal employee proposals that have been circulating in Congress over the past several years including pay freezes, reduced benefits, and arbitrary cuts to the federal workforce have had a negative impact on the federal workers, including those at the IRS.

As part of larger attempts to reduce the Federal deficit, Federal employees are already subject to a two year pay freeze, and there are ongoing attempts to further reduce employee compensation. In addition, recent passage of the Budget Control Act of 2011 drastically reduced funding for federal agencies in FY ’12 and FY ’13, forcing many agencies to cut back significantly on hiring and terminate ongoing programs. At the IRS, the Commissioner recently warned the budget reductions have forced the agency to extend the current freeze on new hires, and will seriously undermine their ability to carry out their taxpayer service and enforcement missions.

NTEU believes that while the spending caps enacted under the Budget Control Act will limit the total amount of overall discretionary funding available for federal agencies in FY ‘13, it is critical that agencies continue to highlight the adverse impact that funding reductions will have on their ability to carry out their missions. At the IRS, we have already seen the negative impact that reduced funding has had on efforts to reduce the federal deficit, and provide quality taxpayer services.

## Impact of Under Funding the IRS

As you know, despite the critical role the IRS plays in generating revenue to fund the federal government, the IRS’ ability to continue doing so in the coming years has been severely challenged due to lack of adequate funding in FY ‘11 and FY ‘12.

For FY ‘11, the full year CR provided IRS with $12.121 billion in funding, roughly its’ FY ‘10 level of $12.146 billion, less a 0.2% rescission, which has strained IRS’ capacity to continue to carry out its important enforcement and taxpayer service missions and led to an on-going hiring freeze.

Under the spending caps enacted as part of the Budget Control Act, IRS funding for FY ’12 was again reduced to $11.8 billion, almost $330 million less than its FY ’10 level. In addition to hampering IRS’ ability to collect revenue and assist taxpayers in a timely manner, the funding reductions come at a time when the IRS workload is continuing to increase while overall staffing remains far below mid 1990 levels. In 1995, the IRS had a staff of 114,018 to administer the tax law and process 205 million returns. Today, they have just 90,907, yet must process approximately 236 million much more complicated tax returns.

The dangers associated with underfunding the IRS have been highlighted in recent reports by the IRS Oversight Board, IRS Advisory Council, and most recently, by the National Taxpayer Advocate. In her most recent Annual Report to Congress, the National Taxpayer Advocate identified inadequate funding for the IRS as the most serious problem facing taxpayers. The report noted that a lack of sufficient resources was negatively impacting IRS’ ability to carry out its taxpayer service mission and assist efforts to reduce the federal deficit. Olson noted that IRS’ capacity to respond to taxpayer inquiries has been severely diminished, to the extent that now the IRS is unable to answer three out of every ten calls it receives, and nearly half of all taxpayers who write to the IRS must wait more than 6 1/2 weeks for a reply.

In addition to hampering IRS’ ability to provide taxpayer services, the funding reductions will also seriously hinder IRS collection efforts, resulting in billions annually in foregone revenue that is critical to reducing the tax gap and federal deficit. IRS’ ability to generate critical revenue necessary to reduce the federal deficit is clear. In FY 2011, on a budget of $12.1 billion, the IRS collected $2.42 trillion. This means that, for every $1 that Congress appropriated for the IRS, the IRS collected about $200 in return.

As noted previously, while the spending caps adopted as part of the debt ceiling agreement have limited Congress’ ability to do so through the regular appropriations process, we believe one way in which Congress can ensure IRS is provided with the necessary resources, particularly for high revenue generating enforcement activities, is through a program integrity cap adjustment.

Since 2006, Presidents of both parties have requested additional funding for IRS tax compliance activities through integrity cap adjustments as an effective way to reduce the tax gap, and Congress has twice approved additional program integrity funding in 2006 and 2010.

For FY ’13, the President’s budget request once again includes a proposal to provide additional funding for enforcement and compliance activities of the IRS through a program integrity cap adjustment. The proposal calls for a cap adjustment of $691 million, which includes funding for both the Enforcement ($277 million) and the Operations Support accounts ($414 million). According to the Administration, the new enforcement initiatives funded out of this cap adjustment will generate roughly $1.5 billion in additional annual enforcement revenue by 2015.

NTEU strongly supports the President's proposal to provide additional program integrity funding for IRS enforcement and compliance initiatives. The IRS has consistently demonstrated that targeted compliance resources more than pay for themselves through increased revenues, which has motivated past Congresses to target additional funds to these enforcement activities.

Mr. Chairman, NTEU knows that the Board fully recognizes the strain that the growing workload and lack of sufficient resources is having on the IRS and appreciates the Board's support of the President's request for additional enforcement funding during the FY '12 budget debate. We also were happy to see that the Board's FY '13 request would provide an additional $1 billion for the IRS above the President's request and asks for the Board's assistance in making the case for sufficient funding for the IRS to congress, the media and the public.

## Anti-Government Rhetoric & Impact on Recruitment and Retention

Mr. Chairman, in addition to shrinking budgets which will adversely impact federal agencies' ability to carry out their missions**,** the increasingly virulent anti-federal employee rhetoric coming out of Congress and the media threatens to further undermine workforce morale.

It is clear that the attacks on federal workers and the work that they do are hurting retention and recruitment efforts government wide. According to OPM, Federal employee retirement applications in 2011 increased 24 percent over the previous year. In all, 104,810 employees put in their retirement papers in 2011, up from 84,427 in 2010.

In addition, the attacks are also adversely impacting recruitment efforts. A 2011 Survey by the National Association of Colleges and Employers found that the federal government is facing serious issues with recruiting and attracting new talent, and that only a tiny number of college graduates are considering a public service career. In the Survey, more than 35,000 students were asked about their employment plans, including what they would like in their first job, their salary expectations and whether they intend to work in the public sector.

The findings show that only 6 percent of the polled college students said they plan to embark on a state or local government career after they graduate. An even smaller number (2.3 percent) reported they intend to work for the U.S. federal government after finishing school.

To their credit, despite the ongoing attacks on federal employees, government-wide, index scores measuring federal employees' job satisfaction decreased just 1.5 percent from 2010. While the decline was expected for a workforce that has weathered attacks on its pay, benefits and resources, what proved surprising was that the dip wasn't steeper. The fact that federal employees still report high commitment and satisfaction scores even as they have been the target for so much negativity speaks volumes about their mission-focus and dedication to this country.

However, as federal agencies continue to see their budgets reduced and assaults on the work and benefits of federal employees mount, agencies will be hard pressed to both motivate and retain many of their skilled workers, and attract new talent. It will be imperative that agencies do all they can to ensure their workers feel appreciated for the work that they do.

## Attracting, Retaining and Empowering the Federal Workforce

As you know, the federal government is the nation's largest employer. For years, the federal government served as a model for other employers. Today, the federal government is losing ground in areas important in attracting, retaining and empowering its workforce.

A model employer makes it easy for its employees to concentrate on their jobs. It provides opportunities for a healthy work-life balance, it provides protection when disclosures of fraud, waste or abuse are made, it provides affordable health care, it provides the opportunity for representation through collective bargaining, and it provides a system of pay and promotion that is fair, credible and transparent.

NTEU believes that the first step in ensuring that agencies' employees are empowered and have a vested interest in the mission of the agency is to engage them just as they are coming onboard.

As part of its Final Report, the IRS Workforce of Tomorrow Task Force identified valuing and retaining employees as critical to achieving the Service's goal of making the Service the best place to work in government. By creating a culture in which every employee is valued and empowered to contribute to their own success and the success of the organization, the report noted that IRS can ensure that five years from now it will have the leadership and workforce ready for the next 15 years. Critical to this effort is ensuring that the integration of new employees into the organization prepares them to succeed at their job, and to become fully engaged, productive members of the organization.

NTEU strongly believes that effective integration of new employees is an investment in employee retention, morale, and productivity. It requires more than just processing paperwork and completing new hire checklists. It also involves making sure employees are introduced to and learn the culture and accepted practices of the organization. It means keeping in touch with new hires as they integrate into the organization and actively seeking them out to find out how they are doing and making it easy for them to communicate any ideas and/or concerns to management.

An effective integration program can also help mitigate some of the adverse effects an ineffective program can have on an agency which include: increased turnover, diminished productivity, reduce engagement, and reduce pride in the agency.

## Work-Life Balance

Dramatic changes in the workforce in the last 40 years have created what Workplace Flexibility 2010 calls a "work-family mismatch and conflict". As noted at the White House Work-life Forum in March, 2010, in 1968, 48 percent of children were raised in households where the father worked full-time, the mother was not in the labor force, and the parents were married; by 2008, only 20 percent of children lived in such households. Among families with very young children (less than 6 years old), well over half of parents are now both working. In families with children between the ages of 6 and 17, two-thirds of them have two working parents.

NTEU believes that we need to rethink the way we work. Employers who follow dated policies and practices that limit workplace flexibility do not serve the interests of either the employer or the employee. When that employer is the federal government, it does not serve the interests of its citizens, either. As we move to an economic recovery, it makes sense to put in place policies that will not suffer from the same "structural mismatch" as the old one.

Flexible work arrangements can alter the time and/or the place where one works on a regular basis. Ideally, it is worked out on a mutually satisfactory basis between employer and employee. Increasing the access and use of flexible work arrangements will change the nature of the workplace, allowing us to be competitive far into the future. Alternative work schedules, which can replace traditional schedules include flexible, compressed and adjust work schedules.

NTEU is enthusiastic about the endorsement of flexible work arrangements by the Director of OPM and by the White House. We believe that joint ventures between management and employee representatives will result in a more flexible workplace that will prove to be a tremendous advantage to a well-functioning government. We would like to see flexible work arrangements as the "standard operating procedure" in the federal government.

## Telework

NTEU strongly believes in the need to expand telework programs. Experience has shown us that telework has many advantages. We have found that where agencies have good telework programs, employees feel they can handle work-life issues much better than in agencies resistant to such programs.

Telework can bring about increased productivity due to uninterrupted time for employees to plan work, reduce tension levels by eliminating difficult commutes and improve quality of life due to time saved not commuting. The benefits are not just to the employee and the employer. There is a social dimension as well. Telework saves energy, improves air quality, reduces congestion and stress on roads and bridges, and enhances the quality of family life.

NTEU was happy to see that in December 2010, the President signed into law the "Telework Enhancement Act of 2010," providing agencies greater flexibility in managing the federal workforce. The Act provides a framework for agencies to better leverage technology and to maximize the use of flexible work arrangements, which will aid in recruiting new Federal workers, retain valuable talent and allow the Federal government to maintain productivity in various situations --including those involving national security and other emergency situations.

Mr. Chairman, NTEU believes the importance of flexibilities such as telework cannot be overstated. Numerous studies focusing on the importance of designing and using human capital flexibilities have found that the flexibilities that are most effective in managing the federal workforce include time off awards and flexible work schedules that allow employees to better balance the demands of career and family life.

A lack of authorities and flexibilities is not the problem. Currently, agencies can offer numerous awards as incentives to employees including cash awards to individuals and groups; quality step increases; retention allowances; foreign language awards; travel incentives; and referral bonuses. In addition, agencies can offer additional flexible work arrangements including leave and job sharing programs. And while it is clear that the broad use of these authorities by federal agencies would be beneficial to both the agency and their employees, they are not be used nearly enough.

Unfortunately, despite the important leadership role that OPM has in identifying, developing, applying, and overseeing human capital flexibilities across the federal government, it has not focused extensively on advertising existing authorities and flexibilities. According to a May 2003 report by the GAO, OPM needs to make human capital flexibilities and effective practices more widely known to agencies and more vigorously identify new flexibilities that would help agencies better manage their human capital.

The report noted that the ineffective use of flexibilities can significantly hinder the ability of federal agencies to recruit, hire, retain, and manage their human capital. To better deal with their human capital challenges, the report noted that it was critical for agencies to assess and determine which human capital flexibilities are the most appropriate and effective for managing their workforces.

We strongly agree with the report's findings and believe OPM should be required promote existing authorities, and require federal agencies to examine current avenues available to them to recruit and retain their federal employees.

We also believe Congress can play a vital role in assisting federal agencies' efforts to effectively manage the federal workforce by enacting legislation that will improve their quality of life at work and at home. This includes passing legislation to reform the whistleblower protection law, ensuring federal workers have the right to bargain collectively, and providing paid parental leave as well as domestic partner coverage to federal workers.

In addition, NTEU believes that once agency funding improves, it is important for agencies to reinstate critical employee assistance programs. A primary example is the IRS' Tuition Assistance Program (TAP) which the IRS was forced to suspend for FY '12 due to recent budget reductions. NTEU has been a strong advocate for the TAP as it has enabled thousands of employees to develop themselves and improve their efficiency, as well as seek career enhancement and promotion in the Service. NTEU will continue our work to secure an appropriate FY'13 budget for the IRS, to increase its ability to hire, and fund important programs of value to the IRS and employees, such as TAP.

In conclusion, Mr. Chairman, NTEU stands ready to participate in a meaningful dialogue with the federal government to make it possible for all our workers to lead healthier, well-balanced lives. We want the federal government to be a leader in this movement, and we pledge to bring all our resources to bear to promote the programs passed by Congress and endorsed by the administration that further our members' ability to balance the demands of their job with the demands of their families, and have a little energy left over to look after their own health.