



*Workforce Planning Efforts Are Hindered by a
Lack of Comprehensive Information on
Employee Skills Levels*

February 24, 2009

Reference Number: 2009-10-041

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

February 24, 2009

MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT
DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Workforce Planning Efforts Are Hindered by a
Lack of Comprehensive Information on Employee Skills Levels
(Audit # 200710042)

This report presents the results of our review of the Internal Revenue Service's (IRS) efforts to evaluate employee skills levels. The overall objective of this review was to evaluate the IRS' progress in developing a methodology to evaluate whether its workforce possesses the skills and competencies (hereafter collectively referred to as skills) necessary to meet current and future challenges. This review was part of the Treasury Inspector General for Tax Administration Fiscal Year 2008 Annual Audit Plan coverage under the major management challenge of Human Capital¹ and is one of a series of 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 most experienced technical employees within the next several years, coupled with the continually increasing complexity of the work performed by these employees, necessitate that the IRS conduct effective workforce planning. However, the IRS lacks the comprehensive, agency-wide information on mission critical employee skills it needs to effectively perform this planning. Because the IRS does not have a methodology in place to fully measure its workforce against current and future skills, it is missing the opportunity to reshape its workforce to meet future challenges, which could adversely affect the quality of service provided to taxpayers.

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



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Synopsis

The work performed by IRS employees continually requires enhanced and more diverse skills, as manual systems used to support tax administration become computer based, the Tax Code becomes more complex, and American taxpayers and tax practitioners expect higher levels of service. However, the IRS lacks the comprehensive, agency-wide information on mission critical employee skills it needs to effectively assess its workforce needs.

The lack of employee skills information we identified is primarily attributable to the absence of a corporate process for the uniform collection, compilation, and analyses of skills data across the agency. In addition, the IRS Human Capital Office (HCO) has not provided sufficient guidance to support the uniform collection of these data at the business unit and operating division levels. However, the IRS HCO has begun to develop a methodology to identify and assess employee skills gaps agency-wide. Until the IRS implements a consistent methodology for assessing the skills needed and possessed by all employees in mission critical occupations,² it will be unable to fully plan for future training and recruitment needs.

The IRS HCO informed us that it is evaluating the feasibility of partnering with the Office of Appeals to develop a process for performing skills gaps assessments of mission critical occupations. This process would use the Enterprise Learning Management System³ as a platform to collect information regarding critical skills needed and to document the results of skills assessments. This platform would also allow for the preparation of development plans tailored to address any skills gaps identified and would include an automated link between the skills gaps assessment process and available training courses. A key objective of this effort is the development of a skills assessment process that could ultimately be used agency-wide.

While we believe that the current approach by the IRS HCO is reasonable, improvements are needed to ensure accountability and maintain progress as the IRS moves forward with its efforts to develop a skills gaps assessment process. Specifically, the IRS HCO has not developed a detailed plan to guide the agency's overall efforts and coordinate the multifunctional actions necessary to ensure the success of this effort.

Recommendations

We recommended that the IRS Human Capital Officer continue with efforts to partner with one or more business units/operating divisions to develop a workable corporate process for skills gaps assessments. We also recommended that the Deputy Commissioner for Operations Support

² Mission critical occupations are those positions critical to front-line enforcement or in direct support to front-line operations needed to meet the stated IRS goals.

³ The Enterprise Learning Management System is used for managing and documenting employee training.



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and the Deputy Commissioner for Services and Enforcement develop a detailed plan to guide the IRS' overall skills gaps assessment effort and coordinate the multifunctional participation necessary to ensure the success of this effort. This plan should be developed in coordination with the IRS business units and operating divisions, identify periodic milestones, and assign accountability for specific actions.

Response

IRS management agreed with all of our recommendations. The IRS HCO in partnership with the Office of Appeals has initiated a pilot for assessing the competencies of tax compliance specialists, a mission critical occupation. A successful pilot will demonstrate the feasibility of implementing these automated processes throughout the Office of Appeals. The pilot will also be evaluated for expansion to other business units/operating divisions. In addition, under the auspices of the IRS Workforce of Tomorrow's⁴ "Planning a Dynamic People Strategy," the task force will work with subject matter experts from the IRS HCO and the business units to develop a competency management system. This group will identify the skills and competencies to be tracked across the IRS as well as the process for tracking skills and compiling the data. Once the process is established, the system will be populated with skills and competencies information for each employee. Finally, when the system is fully populated with skills and competencies data, it will be fed back into the IRS-wide attrition and workload models to enable strategic analysis of skills gaps and needs. Management's complete response to the draft report is included as Appendix IV.

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 any questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.

⁴ The Workforce of Tomorrow task force was established by the Commissioner to ensure that 5 years from now the IRS has the leadership and workforce ready for the next 15 years.



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Workforce Planning Efforts Are Hindered by a Lack of Comprehensive Information on Employee Skills Levels

Abbreviations

HCO	Human Capital Office
IRS	Internal Revenue Service
MCO	Mission Critical Occupation



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Background

The mission of the Internal Revenue Service (IRS) is to provide America's taxpayers with 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 workforce that possesses the skills and competencies (hereafter collectively referred to as skills) necessary to meet current and future challenges. However, the abilities of the IRS to both maintain and expand the skills of its workforce are being challenged by the increasingly complex skills required of IRS employees and the potential that a large number of experienced employees will retire in the near future. The work performed by IRS employees continually requires enhanced and more diverse skills, as manual systems used to support tax administration become computer based, the Tax Code becomes more complex, and American taxpayers and tax practitioners expect higher levels of service.

An IRS mission critical occupation (MCO) is a position critical to front-line enforcement or in direct support to front-line operations needed to meet stated program goals. Many MCOs within the IRS, such as the revenue agent¹ and revenue officer² positions, continuously require greater expertise and updated skills as the Tax Code becomes more intricate and attempts by taxpayers and tax practitioners to evade compliance with the Tax Code become increasingly more sophisticated. Other challenges facing the IRS include an increasing number of taxpayers with complex financial holdings, increased complexity of examinations, growing impact of international tax law issues, expanded technology skills sets, and the impact of significant tax law changes. Finally, 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 2016.³

To assist Federal Government agencies in addressing these issues, the Office of Personnel Management was charged with designing systems and setting standards, including appropriate measures for assessing the management of human capital⁴ by Federal agencies. In 2002, the Office of Personnel Management issued the *Human Capital Assessment and Accountability Framework*, which provides guidance to Federal Government agencies and requires workforce

¹ Revenue agents examine and audit the financial records of corporate and individual taxpayers, helping to ensure that these taxpayers pay the appropriate taxes and comply with Federal tax laws.

² Revenue officers are responsible for collecting delinquent taxes and tax returns.

³ The Office of Personnel Management projections were based on full-time permanent Federal Government employees on rolls as of October 1, 2006.

⁴ The term "human capital" is used to describe the skills, abilities, and contributions of the people in an agency.



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planning strategies, identification of competencies needed to fulfill the agency's mission, and analyses of any gaps. Sharing this responsibility within the IRS are the IRS Human Capital Office (HCO) and the individual business units and operating divisions, with their embedded human capital staff. The IRS created its IRS HCO in 2004 to provide human capital strategies and tools for recruiting, hiring, and retaining a highly skilled and high-performing workforce.

This review was performed in the IRS HCO, Office of Appeals, Large and Mid-Size Business Division, and Tax Exempt and Government Entities Division in Washington, D.C.; the Small Business/Self-Employed Division in New Carrollton, Maryland; and the Wage and Investment Division in Atlanta, Georgia, during the period September 2007 through September 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.



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Results of Review

Overall, the IRS lacks the comprehensive, agency-wide information on the skills of its employees in MCOs required to effectively assess its current and future workforce needs. The lack of employee skills information we identified is primarily attributable to the absence of a corporate process for the uniform collection, compilation, and analyses of skills data across the agency. Because the IRS does not yet have a comprehensive, agency-wide methodology in place to fully measure its workforce against current and future skills, it is missing the opportunity to reshape its workforce to meet future challenges as experienced workers retire, which could adversely affect the quality of service provided to taxpayers.

The IRS HCO has begun to develop a methodology to identify and assess employee skills gaps at the agency level, although significant work remains. For example, the IRS HCO informed us that it plans to include questions regarding future skills needs and potential competencies gaps as part of a workforce projection survey of senior managers in selected business units and operating divisions scheduled to be initiated in January 2009. The IRS HCO also informed us that it is evaluating the feasibility of partnering with the Office of Appeals to pilot a process to support the performance of skills gaps assessments of employees in MCOs. Although these efforts represent forward progress, the IRS still faces a significant challenge in implementing a process to gather the uniform, agency-wide information on the skills of its employees in the MCOs.

Efforts to Develop a Comprehensive Methodology to Assess Employee Skills Need to Be Better Coordinated

The IRS designated 19 occupations (e.g., the revenue agent and revenue officer positions) as critical to front-line enforcement or in direct support of front-line operations. As of September 30, 2007, 65,195 (64 percent) of the IRS' 101,464 employees occupied 1 of these 19 MCOs. Federal Government agencies are required by Office of Personnel Management standards to periodically identify gaps between competencies needed and possessed by employees in MCOs and take actions as needed to close these gaps.

Overall, the IRS lacks comprehensive, agency-wide information on the skills of the employees in its MCOs. Our March 2008 survey of 18 IRS business units and operating divisions identified 4 instances in which at least some steps had been taken toward implementing a skills gaps assessment. However, these four efforts were in different stages of development, and each used or planned to use a significantly different method for assessing skills and compiling results. Until the IRS develops and implements a consistent methodology for assessing the skills needed and possessed by all employees in MCOs, it will be unable to fully plan for future training and recruitment needs.



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The overall lack of comprehensive employee skills information is primarily attributable to the absence of a corporate process for the uniform collection, compilation, and analyses of skills data across the agency. In addition, the IRS HCO has not provided sufficient guidance to support the uniform collection of these data at the business unit and operating division levels. However, the IRS HCO has begun to develop a methodology to identify and assess employee skills gaps agency-wide. Specifically, the IRS HCO informed us that it is evaluating the feasibility of partnering with the Office of Appeals to develop a process for performing skills gaps assessments of MCOs. The Office of Appeals has significant recent experience in the performance of skills gaps analyses. In 2007, the Office of Appeals analyzed the skills necessary for all of its positions and surveyed 138 managers and executives regarding the current overall level of technical competency of its staff.

The proposed IRS skills assessments process would use the Enterprise Learning Management System⁵ as a platform to collect information regarding critical skills needed and to document the results of skills assessments. This platform would also allow for the preparation of development plans tailored to address any skills gaps identified and would include an automated link between the skills gaps assessment process and available training courses. A key objective of this effort is the development of a skills assessment process that could ultimately be used agency-wide. Previously, the IRS HCO primarily concentrated on providing technical support on skills gaps assessment efforts focused on employees in a specific business unit or operating division.

While we believe that the current approach by the IRS HCO is reasonable, improvements are needed to ensure accountability and maintain progress as the IRS moves forward with its efforts to develop a skills gaps assessment process. Specifically, the IRS HCO has not developed a detailed plan to guide the agency's overall efforts and coordinate the multifunctional actions necessary to ensure the success of this effort.

Until it has comprehensive information regarding the extent of its skills gaps, the IRS will continue to miss an important opportunity to reshape its workforce to match its future needs. In addition, the IRS' lack of skills gaps information severely limits its ability to maximize the return on its current skills improvement efforts. Finally, by not assessing and identifying skills gaps on an ongoing basis, the IRS is increasing and perpetuating its risk that the skills currently possessed by MCO employees will not keep pace with the skills needed to adequately perform their jobs in the future.

Recommendations

Recommendation 1: The IRS Human Capital Officer should continue with efforts to partner with one or more business units/operating divisions to develop a workable process that can be used for the agency-wide skills gaps assessment of MCOs.

⁵ The Enterprise Learning Management System is used for managing and documenting employee training.



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Management's Response: The IRS agreed with this recommendation. The IRS HCO in partnership with the Office of Appeals has initiated a pilot for assessing the competencies of tax compliance specialists, a mission critical occupation. A successful pilot will demonstrate the feasibility of implementing these automated processes throughout the Office of Appeals. The pilot will also be evaluated for expansion to other business units/operating divisions.

Recommendation 2: The Deputy Commissioner for Operations Support and Deputy Commissioner for Services and Enforcement should develop a detailed plan to guide the IRS' overall skills gaps assessment effort and coordinate the multifunctional participation necessary to ensure the success of the effort. This plan should be developed in coordination with the IRS business units and operating divisions, identify periodic milestones, and assign accountability for specific actions. The plan should address the following three elements:

1. Development of a process and sufficient guidelines to support consistent collection, compilation, and analyses of skills data across the IRS on an ongoing basis. This process should include identification of anticipated future challenges and the skills needed to address these challenges.

Management's Response: The IRS agreed with this recommendation. Under the auspices of the IRS Workforce of Tomorrow's⁶ "Planning a Dynamic People Strategy," the task force will work with subject matter experts from the IRS HCO and the business units to develop a competency management system. This group will identify the skills and competencies to be tracked across the IRS as well as the process for tracking skills and compiling the data.

2. Implementation of this process by the business units and operating divisions in coordination with the IRS HCO.

Management's Response: The IRS agreed with this recommendation. Once the process is established, the system will be populated with skills and competencies information for each employee.

3. Development of measures and goals to allow for an ongoing assessment of agency progress in closing any gaps identified in the skills of the workforce.

Management's Response: The IRS agreed with this recommendation. When the system is fully populated with skills and competencies data, it will be fed back into the IRS-wide attrition and workload models to enable strategic analysis of skills gaps and needs.

⁶ The Workforce of Tomorrow task force was established by the Commissioner to ensure that 5 years from now the IRS has the leadership and workforce ready for the next 15 years.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the IRS' progress in developing a methodology to evaluate whether its workforce possesses the skills and competencies (hereafter collectively referred to as skills) necessary to meet current and future challenges. To accomplish our overall objective, we:

- I. Determined how the IRS HCO works with the operating divisions and business units to assess and then potentially close any skills gaps among MCOs.
 - A. Determined the level of interaction the IRS HCO has with the operating divisions and business units to assess and address skills gaps.
 - B. Determined the level of oversight and support the IRS HCO is providing to the operating divisions and business units to assess and address skills gaps.
 - C. Evaluated the status of any ongoing or planned efforts by the IRS HCO and/or the operating divisions and business units to develop a methodology for evaluating employee skills.
- II. Determined whether the operating divisions and business units were assessing and addressing skills gaps within their primary MCOs.
 - A. Determined how the IRS identified its MCOs and evaluated the criteria used in making these determinations.
 - B. Provided a questionnaire to each of the 18 operating divisions and business units responsible for the IRS' 19 MCOs to determine whether and when any skills analyses were conducted.
- III. Reviewed the Office of Personnel Management guidance for Federal Government agencies on assessing and addressing skills gaps in the Federal Government workforce.

In order to determine the overall number of IRS employees and the number of employees in MCOs as of September 30, 2007, we relied on Treasury Integrated Management Information System reports provided to us by the IRS. We assessed the reliability of these data by independently conducting online queries of the Treasury Integrated Management Information System database and comparing the results to the reports we received. We found the Treasury Integrated Management Information System data to be reliable for the purposes of the audit and performed no other data validity tests. The Treasury Integrated Management Information System is the IRS' official automated personnel and payroll system.



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Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Alicia P. Mrozowski, Director
Anthony J. Choma, Audit Manager
Kevin P. Riley, Audit Manager
Gene A. Luevano, Lead Auditor
Tom J. Cypert, Senior Auditor
Kenneth E. Henderson, Senior Auditor
Nikki M. Thomas, Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
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
IRS Chief Human Capital Officer OS:HC
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 Chief 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



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Appendix IV

Management's Response to the Draft Report



HUMAN CAPITAL OFFICE

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

Treasury Inspector General
for Tax Administration

Received

JAN 29 2009

January 29, 2009

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Robert B. Buggs *Robert B. Buggs*
Human Capital Officer

SUBJECT: Draft Audit Report – Workforce Planning Efforts are Hindered by a Lack of Comprehensive Information on Employee Skills Levels (Audit # 200710042) (i-trak #2009-49282)

The IRS recognizes that the potential loss of a large number of its most experienced technical employees within the next several years, coupled with the continually increasing complexity of the work performed by these employees, necessitates that we conduct effective workforce planning. The IRS is committed to developing a comprehensive and centralized workforce planning capacity that incorporates a systemic approach to tracking skills that respond to workforce challenges. Accordingly, the Commissioner has established a "Workforce of Tomorrow" task group for "Planning a Dynamic People Strategy". That task group has developed a Servicewide attrition model that is already producing promising results and has proposed developing a high-level workload demand model to be aligned with the attrition model. Our Office of Program Evaluation and Risk Analysis (OPERA) and Criminal Investigation (CI) Division have already developed a similar approach (the OPERA/CI Model) that aligns attrition and workload models to determine allocation of new hires. The task group has also recommended that a comprehensive competency assessment system be developed to inform these models. We are currently assessing IBM's "OnTheMark" workforce planning system for applicability to IRS needs.

Additionally, we are piloting, in partnership with Appeals, a competency assessment approach using our Enterprise Learning Management System (ELMS) that will enable us to identify skill gaps and develop career learning plans for a mission critical occupation. We believe that a successful pilot will enable us to establish a comprehensive, competency assessment approach for all mission-critical occupations.

We realize that our efforts to date are initial steps in our goal of assessing mission-critical employee skills levels. Yet, we believe we have made important progress. Nonetheless, we agree with the findings of the subject report. We have attached corrective actions that we are taking to address the recommendations. By completing these corrective actions, we will be better able to address the Human Capital management challenge. If you have any questions, please contact David Krieg at 202-927-3956.

Attachment



Workforce Planning Efforts Are Hindered by a Lack of Comprehensive Information on Employee Skills Levels

Attachment

Recommendation 1: The IRS Human Capital Officer should continue with efforts to partner with one or more business units/operating divisions to develop a workable process that can be used for agency-wide skills gaps assessment of MCOs.

Corrective Action 1-1: IRS HCO Leadership, Education and Delivery Services (LEADS), in partnership with Appeals, has initiated a pilot for assessing the competencies of Tax Compliance Specialists (GS-0512-11/12/13). This is a mission-critical occupation. Using competencies derived from analysis of position descriptions and Enterprise Learning Management System (ELMS) functionalities, we will administer competency assessments, determine competency gaps, establish individual development plans, and track accomplishments for seven Appeals Tax Compliance Specialist teams. The impact and benefits of the pilot are expected to be cost savings, streamlined processes, managerial burden reduction, and other efficiencies that will accrue from using available ELMS functionalities instead of manual processes. A successful pilot will demonstrate the feasibility of implementing these automated processes throughout Appeals for other mission-critical occupations, thus enabling fulfillment of the Appeals Multi-year Learning Strategy. The pilot will also be evaluated for expansion to other business units/operating divisions.

Implementation Date: April 2, 2010

Responsible Official: IRS Human Capital Officer

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

Recommendation 2: The Deputy Commissioner for Operations Support and Deputy Commissioner for Services and Enforcement should develop a detailed plan to guide the IRS' overall skills gaps assessment efforts and coordinate the multifunctional participation necessary to ensure the success of the effort. This plan should be developed in coordination with the IRS business units and operating divisions, identify periodic milestones, and assign accountability for specific actions. The plan should address the following three elements:

1. Development of a process and sufficient guidelines to support consistent collection, compilation, and analyses of skills data across the IRS on an ongoing basis. This process should include identification of anticipated future challenges and the skills needed to address these challenges.
2. Implementation of this process by the business units and operating divisions in coordination with the IRS HCO.
3. Development of measures and goals to allow for ongoing assessment of agency progress in closing any gaps identified in the skills of the workforce.



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Corrective Action 2-1: Under the auspices of the IRS Workforce of Tomorrow's "Planning a Dynamic People Strategy," the task group will work with subject matter experts from the Human Capital Office and the business units to develop a competency management system. This group will identify the skills and competencies to be tracked across the Service as well as the process for tracking skills and compiling the data.

Implementation Date: October 30, 2009

Responsible Official: IRS Human Capital Officer

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

Corrective Action 2-2: Once the process is established, the system will be populated with skills and competencies information for each employee.

Implementation Date: October 29, 2010

Responsible Official: IRS Human Capital Officer

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

Corrective Action 2-3: When the system is fully populated with skills and competencies data, it will be fed back into the Servicewide attrition and workload models to enable strategic analysis of skill gaps and needs.

Implementation Date: January 28, 2011

Responsible Official: IRS Human Capital Officer

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