The Administration of Recruitment and Retention Incentives Has Improved, but Additional Actions Should Be Taken

September 19, 2011

Reference Number: 2011-10-107

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.

Redaction Legend:
3(d) = Identifying Information of an individual or individuals

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THE ADMINISTRATION OF RECRUITMENT AND RETENTION INCENTIVES HAS IMPROVED, BUT ADDITIONAL ACTIONS SHOULD BE TAKEN

Highlights

Final Report issued on September 19, 2011

Highlights of Reference Number: 2011-10-107 to the Internal Revenue Service Human Capital Officer.

IMPACT ON TAXPAYERS

To assist in its workforce planning efforts, the Internal Revenue Service (IRS), like other Federal agencies, has the flexibility to use payment compensation in the form of recruitment and retention incentives to attract and retain a high-quality workforce. Specifically, the IRS can offer recruitment incentives to attract new employees for positions that are difficult to fill, and retention incentives to retain employees with unusually high or unique qualifications. Since Fiscal Year 2008, IRS management improved their administration of the use of recruitment and retention incentives; however, procedures were not adequate to ensure all Federal and internal guidelines were met. Further improvements will provide assurance that the IRS uses recruitment and retention incentives effectively and only in circumstances where they are needed, which would prevent a potential waste of Government funds.

WHY TIGTA DID THE AUDIT

The overall objective of this audit was to determine whether the IRS properly administers recruitment and retention incentives to hire qualified employees for hard-to-fill positions and retain employees with unusually high or unique qualifications.

WHAT TIGTA FOUND

Since Fiscal Year 2008, IRS management improved their administration of the use of recruitment and retention incentives. However, procedures were not adequate to ensure that all Federal and internal guidelines were met (e.g., requiring documentation to justify the appropriateness of the incentive). Because IRS management relied on manual controls and did not always review incentives to ensure compliance with legal requirements until after the incentives were approved, TIGTA found that some controls were bypassed or not followed. This resulted in some recruitment and retention incentives not being processed in accordance with IRS guidelines between January 2006 and February 2010. For example, seven (25.9 percent) of the 27 retention incentives reviewed did not contain adequate documentation to support that employees would likely leave the IRS in the absence of the incentive, which presents a risk that the incentives may not have been justified.

In addition, IRS management has not identified a method to assess the impact of the use of incentives on overall workforce planning goals. Without this assessment, the IRS may not ensure incentives are used to help achieve workforce planning goals of having the right people, in the right place, at the right time.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Workforce Progression and Management Division, strengthen manual controls to ensure that Federal and internal guidelines are met, and that the IRS Human Capital Officer develop a methodology to assess the impact of the use of recruitment and retention incentives in helping IRS management meet long-term workforce planning goals.

In its response, the IRS agreed with the recommendations. The Director, Workforce Progression and Management Division, has strengthened the approval and recertification process and plans to revise incentive request forms, require approval when the number of incentives is increased, and develop a methodology to assess the IRS incentive program in meeting long-term workforce goals.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 19, 2011

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 – The Administration of Recruitment and Retention Incentives Has Improved, but Additional Actions Should Be Taken (Audit # 201110019)

This report presents the results of our review to determine whether the Internal Revenue Service properly administers recruitment and retention incentives to hire qualified employees for hard-to-fill positions and retain employees with unusually high or unique qualifications. This review is included in our Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Human Capital.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the Internal Revenue Service 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 (Management Services and Exempt Organizations), at (202) 622-8500.

Table of Contents

Abbreviations

HCO	Human Capital Office
IRS	Internal Revenue Service
SES	Senior Executive Service

Background

The Internal Revenue Service (IRS), like many Federal agencies, is faced with the major human capital[1] challenge of replacing a large number of its approximately 100,000 employees with unique skills and institutional knowledge who are expected to retire or leave for other jobs over the next several years. Effective strategic workforce planning and succession planning[2] are needed to strategically manage human capital resources through this challenging time. As experienced IRS employees leave or retire from the Federal Government, successful succession planning is critical to ensure that future employees have the skills and knowledge needed in order to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

To assist in its succession planning efforts, the IRS, like other Federal agencies, has the flexibility to use payment compensation in the form of recruitment and retention incentives[3] to attract and retain a high-quality workforce. Incentive amounts can be paid to employees in a lump sum or in installments. For recruitment incentives, the employee must sign a written service agreement to complete a specified period of employment with the IRS at the designated duty location. The IRS does not require service agreements for retention incentives when payments are made in biweekly installments. See Appendix IV for specific recruitment and retention incentives guidelines.

- Recruitment incentives are used to attract new employees for positions that are difficult to fill in the absence of the incentive. Recruitment incentives can be used to offset higher starting salaries offered by the private sector, especially in mission critical[4] positions such as revenue agent[5] positions, where the rate of college graduates majoring in accounting may not match the IRS needs in certain geographic locations. IRS policy provides that recruitment incentives can be awarded in the amount of $5,000 for lower grade employees and up to 25 percent of the annual salary amount for higher grade employees and executive managers.

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[1] Human capital is used to describe the skills, abilities, and contributions of the employees in an agency.
[2] Succession planning is intended to ensure that employees are recruited and developed to fill key roles as needed within an organization, whenever the need arises.
[3] The use of recruitment, relocation, and retention incentives is provided by the Federal Workforce Flexibility Act of 2004, Pub. L. No. 108-411, 118 Stat. 2305 (Oct. 30, 2004); 5 U.S.C. §§ 5753 and 5754. This audit focused on the IRS's use of recruitment and retention incentives.
[4] Mission critical occupations are those few occupations that comprise the unique core competencies of the IRS and/or have the greatest direct impact on the agency's ability to meet its mission.
[5] A revenue agent is an IRS employee who conducts examinations of individuals, small businesses, corporations, partnerships, tax-exempt entities, and/or government entities, using accounting, auditing, and investigative skills to determine compliance with Federal income tax laws.

- Retention incentives are used when the unusually high or unique qualifications of a current employee, or a special need of the agency for the employee's services, makes it essential to retain the employee, and the employee would be likely to leave the Federal Government in the absence of an incentive. For example, retention incentives can be used to retain retirement eligible employees with unique qualifications such as a statistician or Senior Executive Service[6] (SES) manager when the IRS does not have replacement employees available and, if the employees retired, the ability of the IRS to meet its mission would be impaired. IRS policy provides that retention incentives can be awarded in an amount equivalent to 10 to 25 percent of an employee's annual salary.

The Director, Office of Personnel Management, advised that these incentives should be used with discretion and only when necessary to support the agency mission in difficult staffing situations, and are not intended to be used in a manner to replace the Federal pay scale. Recruitment and retention incentives are important to the IRS because more than one-half of the approximately 100,000 employees and managers have reached age 50, and 39 percent of IRS executives are already eligible for retirement. The IRS may face a knowledge gap if departing highly qualified employees are not replaced by new hires, or if existing employees that possess similar knowledge, skill, and abilities are not retained.

With the weakened American economy, emphasis has been placed on how Government agencies are using taxpayers' dollars. On April 20, 2009, the President asked each Federal agency to ensure the Government is efficient and that taxpayer dollars are spent wisely. In response, on May 27, 2009, the Director, Office Personnel Management, required agencies to ensure that incentive payments are used only when necessary to support mission and program needs, and that they are consistent with the law and Office of Personnel Management regulations. On July 10, 2009, the Director, Office Personnel Management, requested that each agency review and update its recruitment and retention plans, if necessary, and to certify completion of the review by August 24, 2009.

To ensure taxpayer dollars are spent wisely, the Director, Office of Personnel Management, requested that agencies ensure incentive payments are used only when necessary.

The IRS Human Capital Office (HCO), Workforce Progression and Management Division, Compensation and Leave Branch (hereafter referred to as the Compensation Branch) has overall responsibility for administering the IRS recruitment and retention program. However,

[6] The SES is comprised of the men and women charged with leading the continuing transformation of the Federal Government. These leaders possess well-honed executive skills and share a broad perspective of Government. Members of the SES serve in the key positions just below the top Presidential appointees.

IRS managers in the four business operating divisions[7] and IRS HCO staff have responsibility for initiating, reviewing, and approving incentives.

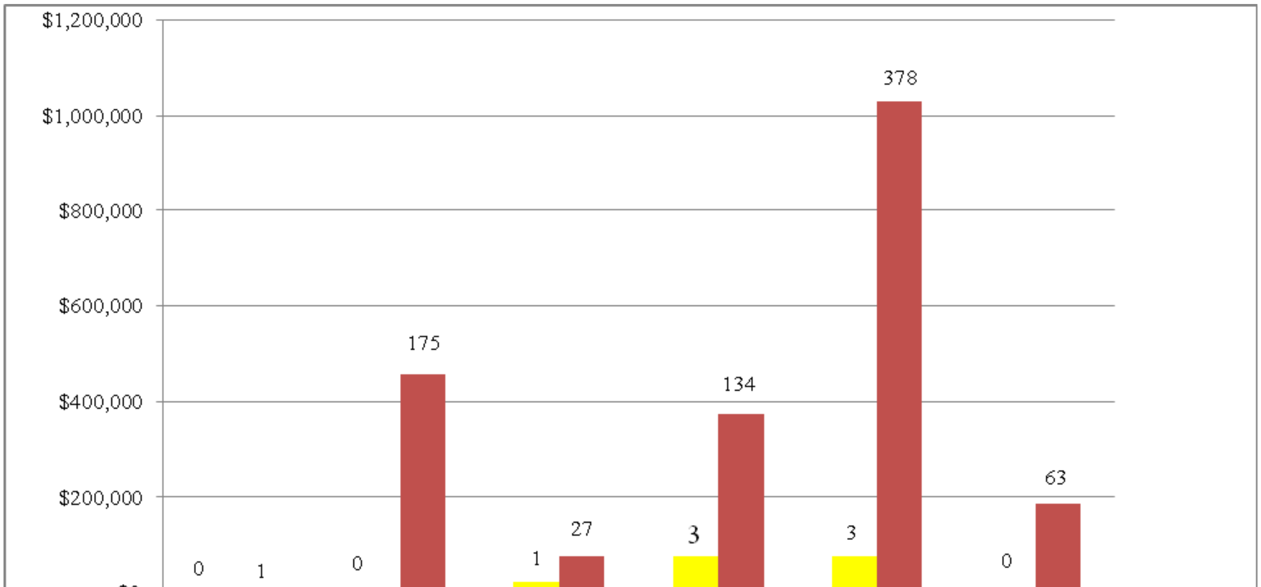
The IRS's use of recruitment and retention incentives has been minimal when compared to its approximately 100,000 employees and managers. Figure 1 shows the number of employees receiving recruitment incentives and the dollar amount the IRS paid to hire SES and non-SES employees between Calendar Years 2005 and 2010.[8] Numbers above each bar represent the number of employees receiving the incentive. The amount of recruitment incentives averaged from a low of approximately $2,600 in Calendar Year 2006 to a high of $10,000 in Calendar Year 2005. Overall, incentives increased because of an enforcement hiring initiative in January 2009. However, the number of incentives decreased in Calendar Year 2010 after the Office of Personnel Management requested in May 2009 that agencies only use incentives when necessary.

The average recruitment incentive ranged from $2,600 to $10,000 per recruit and the average retention incentive ranged from $8,000 to $27,000 per employee between Calendar Years 2005 and 2010.

[7] The IRS is organized into divisions serving groups of taxpayers. The IRS's four divisions include the Tax Exempt and Government Entities, the Large Business and International, the Wage and Investment, and the Small Business/Self-Employed Divisions.

[8] Amounts for Calendar Year 2005 include only recruitment incentives from May 13 through December 31, 2005.

Figure 1: Total Number of Employees Receiving Recruitment Incentives, and the Total Amounts of Recruitment Incentives (Calendar Years 2005–2010)



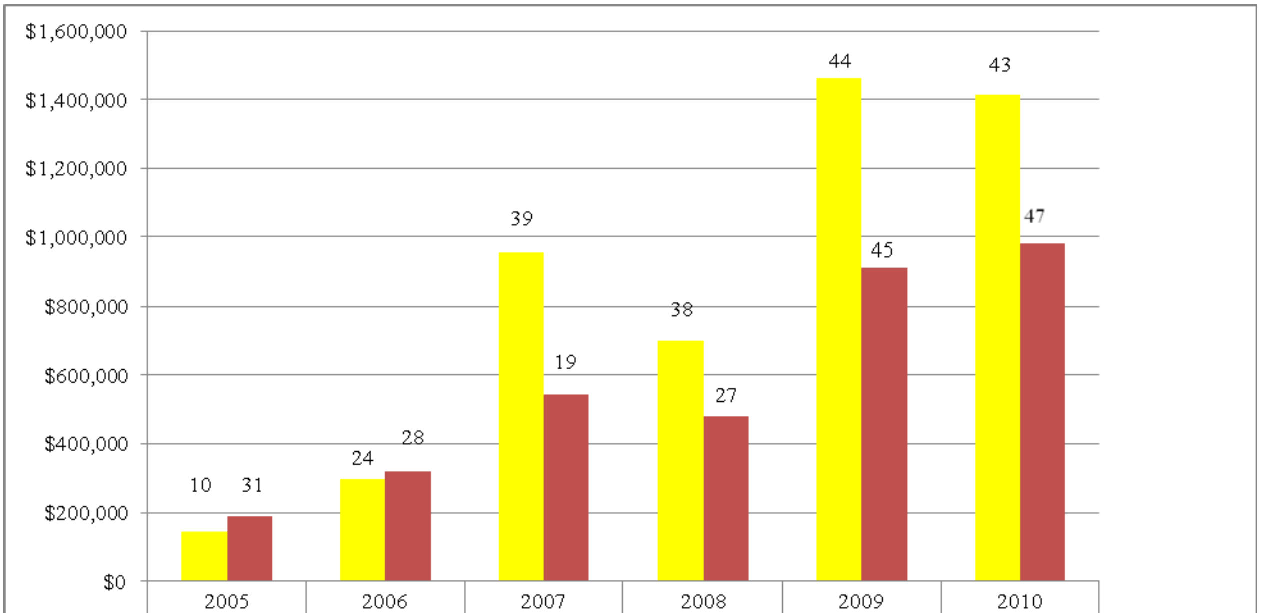
	2005	2006	2007	2008	2009	2010
SES	$0	$0	$22,200	$75,000	$75,000	$0
Non-SES	$10,000	$455,700	$76,034	$374,642	$1,029,437	$186,127

Source: IRS HCO. Information in this chart does not include recruitment incentives for IRS Office of Chief Counsel employees.

Figure 2 shows the number and dollar amount of retention incentives the IRS paid to retain SES and non-SES employees between Calendar Years 2005 and 2010.[9] The amount of retention incentives averaged from a low of approximately $8,000 in Calendar Year 2005 to a high of $27,000 in Calendar Year 2010.

[9] Amounts for Calendar Year 2005 include only retention incentives from May 13 through December 31, 2005.

Figure 2: Total Number of Employees Receiving Retention Incentives and the Total Dollar Amounts of Retention Incentives (Calendar Years 2005–2010)



	2005	2006	2007	2008	2009	2010
SES	$142,600	$298,041	$958,737	$701,882	$1,462,487	$1,413,836
Non-SES	$189,562	$321,396	$542,232	$478,326	$911,438	$979,538

Source: IRS HCO. Information in this chart does not include retention incentives for IRS Office of Chief Counsel employees.

This review was performed at the IRS National Headquarters in Washington, D.C., in the IRS HCO Office of Executive Services and the IRS HCO Workforce Progression and Management Division, Compensation Branch in Atlanta, Georgia, and Independence, Ohio, during the period October 2010 through May 2011. 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 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.

Results of Review

Since Fiscal Year 2008, IRS management improved their administration of the use of recruitment and retention incentives to attract employees for hard-to-fill locations and retain employees with unusually high or unique qualifications. However, procedures were not adequate to ensure that all Federal and internal guidelines were met. Because IRS HCO management relied on manual controls and did not always review incentives to ensure compliance with legal requirements until after the incentives were approved,[10] we found that some controls were bypassed or were not followed for some recruitment and retention incentives. This resulted in some recruitment and retention incentives not being processed in accordance with IRS guidelines between January 2006 and February 2010. In some instances, there was insufficient documentation to support the incentive, which presents a risk that the incentives may not have been justified.

In addition, we determined that the IRS HCO has not identified a method to assess the impact of the use of incentives on overall workforce planning goals. Further improvements will provide assurance that the IRS uses recruitment and retention incentives effectively to address difficult staffing situations through strategic workforce planning and ensure the IRS has the right people, in the right place, at the right time to achieve its mission.

Improvements Have Been Made to the Administration of Recruitment and Retention Incentives

IRS management created guidelines to administer the recruitment and retention incentive program.[11] These guidelines were created to provide assurance that incentives comply with legal requirements and that the incentives are used only when necessary to support mission and program needs. Over the past several years, the IRS HCO has focused on improving controls for administering recruitment and retention incentives. The IRS HCO effectively accomplished this by completing the following:

Recruitment and retention improvements

- The IRS Recruitment and Retention Plans were updated on August 25, 2009, in response to the request from the Director, Office of Personnel Management.

[10] Requests for recruitment incentives are technically reviewed by the IRS HCO prior to final approval. However, requests for retention incentives for non-SES employees are technically reviewed by the embedded HCO offices in the IRS business units.

[11] See Appendix IV for a description of IRS guidelines for recruitment and retention incentives.

IRS HCO management updated its approval and internal monitoring procedures to provide assurance the IRS complied with legal guidelines.[12]

- As part of its Fiscal Year 2008 Corporate Incentive Strategy, the IRS's Senior Executive Team developed a guide for determining amounts to be paid to non-SES employees for recruitment and retention incentives. The guide identifies incentive amounts, dependent on position and grade level, to help ensure consistent application of incentive amounts IRS-wide.

- The IRS approval authority for recruitment and retention incentives for all non-SES employees was elevated to the following officials in July 2009:
  - Recruitment Incentives – Commissioner,[13] Deputy Commissioner for Services and Enforcement, or Deputy Commissioner for Operations Support.
  - Retention Incentives – Division Commissioner, Deputy Division Commissioner, Chief Officer, Deputy Chief Officer, or the equivalent official.

IRS management elevated the approval authority for incentives higher than required by Federal regulation to ensure the integrity of the program.

Federal regulations require that retention incentives must be approved by an official at least one level higher than the employee's supervisor. IRS management elevated the approval authority higher than what is required by Federal regulation to ensure the integrity of the program is maintained and to ensure efficient and effective use of this discretionary authority.

- Incentive request forms were revised in January 2010 for requesting and approving recruitment incentives and in February 2009 for retention incentives. The new forms were designed to make it easier for IRS managers to prepare the forms to ensure regulatory requirements are met and help reduce the likelihood of errors.

- An annual review of non-SES recruitment and retention incentives was established effective January 2010 by the Compensation Branch. This review is not required by Federal regulations, but is intended to determine whether all regulatory requirements and issues identified in other agency audit reports were met for incentives approved in the previous year. The annual review was initiated by the Compensation Branch because, although they are responsible for the incentive administration, they are not part of the

[12] 5 U.S.C. 5753 and 5754.

[13] The IRS Commissioner only signs if the incentive is being authorized under a variation from Federal guidelines that is approved by the Office of Personnel Management.

review and approval process for retention incentives.[14] In addition, a customer survey was conducted to solicit input from the embedded HCOs on how well the incentive process worked. The results of the review were summarized and shared with the IRS HCO.

Recruitment improvements

- A decision tree and two-step approach were developed for use beginning in Fiscal Year 2009 to identify when locations should be designated as hard-to-fill for recruitment incentives. The approach was developed to ensure consistent and frugal use of recruitment incentives IRS-wide.
- A process for completing a technical review of recruitment incentive request forms was enhanced in Fiscal Year 2008. The review of incentive requests for individual employees is conducted by the IRS HCO to ensure that all statutory, regulatory, and policy requirements are met before final approval by the appropriate IRS manager.

Retention improvements

- An annual recertification process was established effective January 2010 for all open retention incentives to ensure compliance with regulations and help reduce the burden of tracking the incentives individually. Prior to this change, each incentive was tracked and recertified on the date the incentive was originally signed. The recertification of all employees at the same time makes the process easier to manage.

Manual Controls to Administer Recruitment and Retention Incentives Did Not Always Work As Intended

While the IRS has improved many of its policies and procedures for ensuring incentives comply with legal requirements and are used only when necessary, many of the controls in these policies and procedures are manual. Therefore, we found that some of these controls were sometimes bypassed or not followed. We found that 1) documentation did not always show that retention incentives were needed to keep employees from leaving the IRS, 2) retention incentives were not always recertified timely, 3) technical reviews were not always performed to ensure legal requirements were met prior to approval of incentives, 4) approvals were not always documented for group recruitment incentives, and 5) retention incentives were not always cancelled when the reason for the retention incentive no longer applied. Improvement to strengthen controls will provide IRS management assurance that recruitment and retention incentives are initiated,

[14] The Office of Executive Services has not implemented a similar annual review of all recruitment and retention incentives for SES employees because they are involved in all case actions prior to approval.

reviewed, and approved only in circumstances where they are needed, which would prevent a potential waste of Government funds.

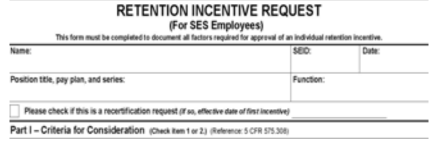
Documentation did not always show that retention incentives were needed to keep employees from leaving the IRS

Federal regulations require that the IRS document in writing the basis for determining that the employee would be likely to leave the Federal Government in the absence of a retention incentive. However, 7 (25.9 percent) of the 27 original incentive requests or recertifications we reviewed did not contain adequate documentation to justify that employees would likely leave the IRS in the absence of the incentive.

- Four of the seven original retention incentive requests involved SES employees and occurred prior to Calendar Year 2008. The request forms did not adequately document the employee would likely leave the IRS in the absence of the incentive. Documentation generally provided specific reasons for retaining the employee (i.e., employee is retirement eligible or in great demand), but did not describe further detail such as recent job offers or when the employee would likely leave the service.
- Three of the seven requests (one recertification and two original requests) in Calendar Years 2009 and 2010 involved non-SES employees. Technical reviews of the incentive request forms were conducted by the IRS business units and approved by appropriate IRS managers. However, the forms used to request retention incentives did not contain adequate documentation to justify that the employees would likely leave the IRS in the absence of the incentive.

This occurred because retention incentive approval forms did not require any specific documentation on why IRS management believed the employee was likely to leave Federal service. If controls do not require IRS management to evaluate whether an employee is likely to leave the IRS, the IRS could be spending taxpayer dollars on retention incentives that are not required to retain IRS employees.

New retention forms require a detailed description of how it was determined an executive is likely to leave Federal service. However, nonexecutive forms do not require this description.


RETENTION INCENTIVE REQUEST
(For SES Employees)
This form must be completed to document all factors required for approval of an individual retention incentive.

Name:	SEID:	Date:
Position title, pay plan, and series:	Function:	

☐ Please check if this is a recertification request *(If so, effective date of first incentive)* ____________

Part I – Criteria for Consideration (Check item 1 or 2.) (Reference: 5 CFR 575.308)

<u>Management Actions</u>: Retention incentives for SES employees now require approval by the Department of the Treasury. In November 2010, the Department of the Treasury developed new SES forms for requesting retention incentives to provide increased assurance that all criteria are met prior to approval. The new form requires a description of how it was determined that the executive is likely to leave Federal service in the absence of the incentive, and if the executive is not eligible to retire, the justification should be more specific about the executive's plans or other employment offers.

Retention incentives were not always recertified timely

IRS procedures require that retention incentives that are not recertified timely must be terminated within one pay period prior to expiration of the incentive. However, we determined that 3 (11 percent) of 27 retention incentives we reviewed were neither recertified timely nor terminated within 1 pay period prior to expiration of the incentive.

- Two of the three incentives involved SES employees and occurred prior to Calendar Year 2008. The incentives were recertified 148 days and 413 days late.
- One of the three incentives involved a non-SES employee and occurred in Calendar Year 2009. The incentive was 121 days late.

Management Actions: Prior procedures involved sending reminders to the IRS's business units when recertification of retention incentives were due, based on the anniversary of the original incentive. Effective February 2010, IRS HCO management implemented a new process to recertify all retention incentives annually within the same month. This is intended to simplify the process and reduce the number of untimely recertification issues. Since the IRS HCO has taken actions to improve the timeliness of recertification, we are making no additional recommendations regarding this issue at this time.

Technical reviews were not always performed to ensure legal requirements were met prior to approval of incentives

IRS guidelines require that technical reviews be conducted of recruitment and retention incentives before they are approved by executive management to ensure all legal requirements are met. However, we identified two recruitment incentives and four retention incentives for non-SES employees where the reviews were not conducted, or not conducted timely.

Technical reviews should be performed prior to approval of incentives to ensure compliance with Federal regulations.

Technical reviews were not conducted, or not conducted timely, for 2 (14 percent) of the 14 non-SES recruitment incentives reviewed and for 4 (31 percent) of the 13 non-SES retention incentives reviewed.

- One of the two recruitment incentives involved an individual who was approved in Calendar Year 2008. The remaining incentive involved a group incentive that was approved in Calendar Year 2009. For recruitment incentives, this happened because the responsible business units failed to forward the request to the Compensation Branch for review, as required.
- Two of the four retention incentives were approved in Calendar Year 2009, and the remaining two were approved in Calendar Year 2010. For retention incentives, this

happened because the responsible business unit failed to forward the request to the embedded HCO, as required.

If technical reviews are not performed prior to incentives being approved, the IRS risks certifying that the incentive fully complies with Federal regulations, when they may not.

Approvals were not always documented for group recruitment incentives

Sound internal control procedures require transactions to be properly recorded to maintain relevance and value to management in controlling operations and making decisions. All transactions and other significant events should be clearly documented, and the documentation should be available for review. However, we identified one group recruitment incentive that was not properly documented.

*******3(d)******************, in January 2009, approved hiring up to 209 revenue agents and 21 revenue officers[15] in difficult-to-fill locations. IRS HCO Workforce Progression and Management Division management stated that increased funding became available after the initial employees were hired. ******************3(d)****************************
***********************************3(d)************************************
**************3(d)*********************. Additional documentation was not obtained because procedures do not explicitly state that approval should be obtained if there is a significant change in a group incentive. According to IRS HCO personnel, a cross-functional group comprised of representatives from three business units and the IRS HCO provided oversight for the additional incentives. In addition, monthly reports on hiring progress were created and regular briefings were made to ******************3(d)*******************
*******************3(d)*************. However, without a control in place to document significant changes to group incentives, the IRS risks expenditure of taxpayer funds without proper approval and employees could receive incentives when it is not warranted.

Retention incentives were not always cancelled when the reason for the retention incentive no longer applied

Federal regulations require agencies to reduce or terminate a retention incentive whenever conditions change such that the original determination to pay the retention incentive no longer applies (e.g., when the agency assigns the employee to a different position that is not within the terms of the original determination) or when the payment is no longer warranted at the level originally approved or at all after considering certain factors. However, we identified 1 (7.7 percent) of 13 non-SES employees whose retention incentive was not terminated when the employee changed positions prior to the expiration of the incentive.

[15] A revenue officer attempts to contact taxpayers and resolve collection matters.

The retention incentive was not terminated as required because the business unit where the employee worked did not notify the IRS HCO of the need to terminate the incentive when the change in position occurred. Although the incentive was not terminated timely, the employee was approved to receive a new retention incentive 66 days after transferring to the new position. If retention incentives are not terminated when an employee changes positions or when the terms of the original retention incentive change, the IRS risks spending taxpayer dollars on incentives that are no longer justified.

Recommendations

The Director, Workforce Progression and Management Division, HCO, should:

Recommendation 1: Revise the non-SES retention incentive request form to require details of how it is determined that an employee would likely leave the Federal Government in the absence of the incentive.

> ***Management's Response:*** IRS HCO management agreed with this recommendation and plans to revise the non-SES retention incentive request form to capture the basis for determining the employee is likely to leave Federal service.

Recommendation 2: Work with the IRS business units to move responsibility for technical review of all non-SES recruitment and retention incentives to the IRS HCO Workforce Progression Management Division, Compensation Branch, prior to submission to the appropriate IRS official for approval.

> ***Management's Response*:** IRS HCO management agreed with this recommendation and communicated to all IRS business units that, effective immediately, all incentive requests must be forwarded to the HCO, Workforce Progression and Management Division, for technical review prior to approval.

Recommendation 3: Improve procedures to ensure that approvals for significant changes to group recruitment incentives, such as decisions to provide additional incentives or provide incentives to employees in other locations, are properly documented.

> ***Management's Response*:** IRS HCO management agreed with this recommendation and plans to revise IRS policy to require additional written approval for any increase to the number of incentives specified in group requests.

Recommendation 4: Remind the business units annually, during the annual review of retention incentives, of the need to terminate incentives for employees who change positions and no longer qualify for the incentive.

> ***Management's Response*:** IRS HCO management agreed with this recommendation and stated that a new justification explaining the business need to retain the employee is

now required. Recertification requests without a detailed justification, to include succession planning and knowledge transfer efforts, will be terminated.

The Use of Recruitment and Retention Incentives Should Be Fully Incorporated Into Strategic Workforce Planning

Figures 1 and 2 indicate that IRS management has spent in excess of $10.7 million since Calendar Year 2005 on flexibility incentives to recruit and retain employees.

Strategic workforce planning could be improved by analyzing the use and impact of incentives.

IRS HCO management linked the use of recruitment and retention incentives to the broad IRS Human Capital Objective to "Make the IRS the Best Place to Work." Specific links to the Human Capital Objective include:

- Develop and implement a service-wide recruitment plan that maximizes hiring to meet diversity and mission needs.
- Forecast leadership hiring, recruitment, and training needs to increase the agility needed to adjust workload priorities.
- Identify and adopt innovative retention vehicles.
- Develop and implement a plan that clearly communicates retention incentives.
- Redesign the incentive processes to reduce burden and improve service to employees.

In addition, IRS HCO management indicated the IRS Corporate Incentive Strategy ensures consistency in spending across the business units, and the elevation of incentive approval to the Deputy Commissioner level allows for better oversight and tracking of expenditures.

However, IRS HCO management has not fully incorporated the use of recruitment and retention incentives into the IRS's strategic workforce planning because IRS management does not assess the impact of the use of incentives on their planning goals. In addition, although the IRS Corporate Incentive Strategy ensures consistency in spending across the business units, it does not ensure the most critical IRS-wide recruiting and retention needs are met.

Recruitment and retention incentives are important flexibilities provided by Congress to help agencies recruit good employees and retain employees with unique skills when succession planning has not been effective in developing staff to fill key roles as needed. However, the use of retention incentives was not intended to be a replacement for sound succession management. As of November 2010, 87 IRS employees received retention incentives. Of the 87, Figure 3 shows the number of IRS employees receiving multiple-year retention incentives. For example, 4 employees (2 non-SES and 2 SES) received retention incentives for 6 or more years.

Figure 3: Analysis of Current Employees Receiving Multiyear Retention Incentives (As of November 2010)

	2 years	3 years	4 years	5 years	6 or more years
Non-SES	22	8	3	2	2
SES	39	20	8	3	2
Total	61	28	11	5	4

Source: IRS HCO.

Although there is no limit on the number of years employees can receive retention incentives, the Office of Personnel Management is considering adding an additional requirement for determining whether a retention incentive should be provided to an employee, or whether other employees identified in the agency succession plan generally possess the competencies required for the position and could perform at the same level with minimal training, cost, and disruption of service to the public. In addition, the Government Accountability Office has reported[16] that agencies should establish data and indicators to track program effectiveness in order to determine whether investment in recruitment and retention incentives, compared to other available human capital flexibilities such as student loan repayment, is more effective.

IRS management has identified certain occupations and locations where it is difficult to recruit, but they do not know whether they are paying more than needed for these purposes. Without analysis to determine the impact of the use of incentives on workforce planning, the IRS risks using taxpayer funds for incentives without assurance that they are helping the IRS achieve its hiring of the right people, at the right place, at the right time.

Recommendation

Recommendation 5: The IRS Human Capital Officer should develop a methodology to assess the impact of the use of recruitment and retention incentives in helping IRS management meet long-term workforce planning goals. The methodology should include indicators to track and evaluate the use of recruitment and retention incentives.

> ***Management's Response*:** IRS HCO management agreed with this recommendation and plans to develop a methodology to assess the incentive programs to determine the value gained by using incentives to meet long-term workforce goals.

[16] *Continued Opportunities Exist for FDA and OPM to Improve Oversight of Recruitment, Relocation, and Retention Incentives* (GAO-10-226, dated January 2010). FDA – Food and Drug Administration. OPM – Office of Personnel Management.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether the IRS properly administers recruitment and retention incentives to hire qualified employees for hard-to-fill positions and retain employees with unusually high or unique qualifications. To accomplish our objective, we:

I. Identified the requirements Federal agencies should follow and best practices Federal agencies can benefit from in administering recruitment and retention incentives.

  A. Reviewed the Federal Workforce Flexibility Act of 2004[1] to identify requirements Federal agencies should use to administer recruitment and retention incentives.

  B. Reviewed Office of Personnel Management guidance to identify requirements Federal agencies should use to administer recruitment and retention incentives.

  C. Reviewed IRS HCO management certification (to the Office of Personnel Management or to the Department of the Treasury) that IRS recruiting and retention incentive plans and internal approval and monitoring procedures are consistent with regulations.

II. Determined whether IRS HCO management developed adequate procedures to administer recruitment and retention incentives.

  A. Through discussions with IRS HCO management, identified the procedures for administering recruitment and retention incentives.

  B. Reviewed the IRS Recruitment Plan and determined whether it designates officials with authority to review and approve payment of recruitment incentives, categories of employees prohibited from receiving recruitment incentives, criteria for determining that a position is likely to be difficult to fill, requirements for determining the amount of a recruitment incentive, payment methods that may be authorized, and requirements governing service agreements (e.g., length of a service period, conditions for terminating a service agreement).

  C. Reviewed the IRS Retention Plan and determined whether it designates officials with authority to review and approve payment of retention incentives, categories of employees who are prohibited from receiving retention incentives, criteria for determining that an employee would likely leave Federal service, requirements for determining the amount of a retention incentive, payment methods that may be

[1] Pub. L. No. 108-411, 118 Stat. 2305 (Oct. 30, 2004); 5 U.S.C. §§ 5753 and 5754.

authorized, and requirements governing service agreements (e.g., length of a service period, conditions for terminating a service agreement, conditions for terminating a retention incentive payment when no service agreement is required).

D. Through discussion with IRS HCO management and review of documentation, identified whether policies are in place to ensure laws and regulations are met before an incentive is paid to an employee.

E. Evaluated whether IRS HCO management developed an adequate methodology to administer recruitment and retention incentives by comparing IRS established guidelines (in Subobjective II) to requirements and best practices (in Subobjective I).

III. Determined whether requests for employee recruitment and retention incentives were properly documented and technically reviewed to ensure compliance with legal and regulatory requirements and whether service agreements are identified and terminated when necessary.

A. Obtained and analyzed recruitment and retention incentives data IRS management provided to the Department of the Treasury for Fiscal Years 2005 through 2010.

B. Judgmentally selected and reviewed a sample of 18 recruitment incentives (14 non-SES [including 3 group incentives] and 4 SES) from a population of 586 recruitment incentives approved in Calendar Years 2008 through 2010. Judgmental sampling techniques were used because projections across the population were not intended.

C. Judgmentally selected and reviewed a sample of 27 retention incentives (13 non-SES that were open as of October 2010 and 14 SES that were open as of December 2010) from a population of 79 retention incentives. Our selections were based on employees receiving retention incentives over multiple years, employees from different business units, and employees receiving their first retention incentive in Calendar Year 2010. Judgmental sampling techniques were used because projections across the population were not intended.

D. Determined whether the IRS HCO measured the impact of its recruitment and retention incentives on the overall workforce strategy.

E. Determined whether oversight provided by IRS HCO management was adequate to ensure that recruiting and retention incentives were used to fill the most critical vacancies in the IRS overall, and not just the most critical vacancies within each budgeted area.

F. Reviewed any trend analyses or work studies (if available) to verify IRS HCO management measures the impact on its use of recruitment and retention incentives on the overall workforce strategy.

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 the following internal controls were relevant to our audit objective: the Department of the Treasury policies and procedures for administering recruitment and retention incentives, and the IRS policies and procedures for administering recruitment and retention incentives. We evaluated these controls by comparing IRS procedures to Federal and Department of the Treasury procedures, reviewing recruitment and retention incentive case files, and interviewing IRS HCO management associated with the processing of non-SES and SES recruitment and retention incentives.

Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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Deputy Commissioner for Operations Support OS
Deputy Commissioner for Services and Enforcement SE
Deputy IRS Human Capital Officer OS:HC
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Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: IRS Human Capital Officer OS:HC

Appendix IV

Recruitment and Retention Incentives Guidelines

The IRS HCO, Workforce Progression and Management Division, Compensation and Leave Branch (hereafter referred to as Compensation Branch), is responsible for overall program administration, including policy guidance, annual reviews, and reporting requirements for recruitment and retention incentives for non-SES employees. The IRS HCO, Office of Executive Services Division, is responsible for oversight of recruitment and retention incentives for SES employees. Both offices work with, but do not have authority over, embedded HCOs within each of the IRS's business units for the purpose of administering recruitment and retention incentives. Figure 1 lists the specific guidelines.

Figure 1: IRS Recruitment and Retention Incentives Guidelines

Recruitment Incentives	
General Requirements	The IRS can authorize payment of a recruitment incentive for a newly appointed employee when the position is likely to be difficult to fill in the absence of the incentive. The business unit must make the determination to provide the incentive before the prospective employee begins work.
	The employee must sign a written service agreement to complete a specified period of employment with the IRS at the designated duty location. The agreement may not be for less than 6 months or for more than 4 years. Payment may be made in lump-sum before or at the commencement of the service period, in installments through the service period, as a final lump-sum payment upon completion of the service period, or in a combination of these payment methods.
	The IRS can terminate an agreement based solely on management needs. The IRS must terminate the agreement if the employee is demoted or separated for cause, receives a rating of record of less than "Fully Successful" or equivalent, or fails to fulfill the terms of the agreement.
Individual and Group Recruitment Incentives for Non-SES Employees	
Requesting the Incentive	After determination that the position or location is considered "hard-to-fill," the recruiting (or first-line) manager in the business unit through the embedded HCO prepares the incentive request [Recruitment Incentive Request (For Non-SES Employees) (Form 14118-I) for individuals and Recruitment Incentive Group Request (For Non-SES Positions) (Form 14118-G) for groups] which documents the appropriate criteria for consideration of the recruitment incentive, the eligibility of the employee, and the proposed recruitment incentive amount. All requests for group incentives must be coordinated between business units having like or similar occupations.

	Form 14118-I must be signed by the recruiting manager and Form 14118-G must be signed by the embedded Human Capital manager. Afterwards, both Form 14118-I and Form 14118-G must be signed by the Division Commissioner, Deputy Division Commissioner, Chief Officer, Deputy Chief Officer, or equivalent official as a second-level review.
	The business unit embedded HCO forwards the signed completed Form 14118-I and Form 14118-G to the Compensation Branch.
Review of the Incentive Request	The Compensation Branch completes a technical review of Form 14118-I and Form 14118-G to verify that all statutory and regulatory requirements (i.e., eligibility, criteria for consideration, written determination, and amount) are met.
	Form 14118-I and Form 14118-G are forwarded to the IRS Human Capital Officer for signature to certify that a technical review was completed and is forwarded for approval.
Final Approval for the Incentive	Form 14118-I and Form 14118-G must be signed by the IRS Commissioner, Deputy Commissioner for Services and Enforcement, or the Deputy Commissioner for Operations Support.
	Form 14118-I and Form 14118-G are forwarded to the IRS's Agency-Wide Shared Services organization where payment is processed.
Recruitment Incentives for SES Employees	
Requesting the Incentive	The request for the incentive is prepared by the managing executive of the business unit through the use of a recruitment worksheet.
	The managing executive submits the incentive worksheet to the business unit Head of Office or equivalent (e.g., Division Commissioner, Chief Officer) for review and signature.
Review of the Incentive Request	The request is submitted to the IRS HCO Office of Executive Services for technical review to certify that all statutory and regulatory requirements (i.e., eligibility, criteria for consideration, written determination, and amount) are met.
	The IRS HCO Office of Executive Services forwards the incentive request worksheet to the IRS Human Capital Officer with recommendation of approval or denial of the recruitment incentive.
Final Approval for the Incentive	Prior to July 2009, the IRS HCO forwarded the recruitment incentive certification to the appropriate approving official who is generally the Chair, Executive Resources Board. After July 2009, incentives for all SES employees must be forwarded to the Department of the Treasury for approval.

Recruitment Incentive for Administratively Determined Executives	
The IRS Restructuring and Reform Act of 1998[1] authorized the Secretary of the Treasury to fill up to 40 critical administrative, technical, and professional positions to carry out functions of the IRS. Critical pay plans allow the candidate's salary to be competitive with the private sector. Critical pay compensation is based on the candidate's previous salary history. Critical pay packages can include recruitment incentives based on the candidate's salary history. This authority expires on July 23, 2013.	
Requesting the Incentive	The business unit contacts and makes the IRS HCO Office of Executive Services aware of the need for the incentive.
	The Office of Executive Services prepares the compensation package in coordination with the point of contact for the business unit Head (i.e., Executive Staff Assistant to the Division Commissioner). There are no standardized request forms for administratively determined candidates. A memo is prepared for request of the selection and with that will be all compensation information, including any recruitment requests. All information about the recruitment incentive request is also included in the compensation package.
Review of the Incentive Request	After approval of the position description, the business unit embedded HCO contacts the IRS HCO Office of Executive Services and informs it about a potential candidate for an administratively determined position.
	The Office of Executive Services prepares the compensation package in coordination with the embedded HCO in the business unit. There are no standardized request forms for administratively determined candidates. All information about the recruitment incentive request is included in the compensation package.
Final Approval for the Incentive	All administratively determined recruitment incentive requests were approved at the Department of the Treasury prior to November 25, 2009.
	The IRS Commissioner became the approving official for administratively determined recruitment incentive requests after November 25, 2009.
Retention Incentives	
General Requirements	A retention incentive may be paid to a current employee, manager, or executive when the IRS determines that the unusually high or unique qualifications of the employee or a special need for the employee's services make it essential to retain the employee, and the employee would be likely to leave Federal service in the absence of the incentive.

[1] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

	The IRS does not require service agreements for retention incentives when payments are made in biweekly installments, in lieu of a lump sum, at the incentive percentage rate established for the employee, and the incentive rate is generally set at or below the 25 percent cap for individual authorizations or the 10 percent cap for a group of employees. When no service agreement is required, an agency must review each determination to pay at least annually to determine whether the conditions that supported the initial request and approval of a retention incentive is still warranted and certify the determination in writing by the approving official.
	A retention incentive may be reduced or terminated at any time. When a retention incentive is reduced or terminated, the business unit must notify the affected employee in writing at least one full pay period before the reduction or termination is effective.
Retention Incentives for Non-SES Employees	
Requesting the Incentive	The employee's manager recommends payment of a retention incentive through the second-level manager. The business unit prepares the Retention Incentive Request (For Non-SES Employees) (Form 14063-B), which documents the appropriate criteria for consideration of the retention incentive, supporting factors, and proposed retention incentive amount.
	The request must be signed by the first-line manager, and then by the business unit's second-level manager or higher.
Review of the Incentive Request	The request form is forwarded to the business unit's embedded HCO for technical review to certify that the employee meets the statutory, regulatory, and policy requirements for a retention incentive prior to forwarding to the approving official.
Final Approval for the Incentive	The request must be signed by the IRS Division Commissioner, Deputy Division Commissioner, Chief Officer, Deputy Chief Officer, or equivalent.
	The approving official must review and approve in writing the retention incentive request before it can be made effective and paid to the employees.
	The request is forwarded to the IRS's Agency-Wide Shared Services organization where payment is processed.
Retention Incentives for SES Employees	
Requesting the Incentive	In Calendar Year 2007 and prior, the IRS business units prepared Retention Incentive Worksheets, and the Office of Executive Services Division prepared the related memorandum based on information in the Worksheets to document justification for the retention request and proposed incentive amount.
	In Calendar Year 2008, Retention Incentive Requests (For SES Employees) (Form 14063-A) were used to request retention incentives. The Form 14063-A must be signed by the manager and a second-level review must be performed and signed by the Division Commissioner, Deputy Division Commissioner, Chief Officer, Deputy Chief Officer, or equivalent.
Review of the Incentive Request	The requests are submitted to the IRS HCO Office of Executive Services Division for technical review to certify that the employee meets the statutory, regulatory, and policy requirements for a retention incentive prior to forwarding to the approving official.

	The Office Of Executive Services Division provides recommendations to the IRS Human Capital Officer to reject or approve the requests. The IRS Human Capital Officer must certify through signature that the technical review was completed.
Final Approval for the Incentive	Prior to July 2009, the IRS HCO forwarded the request to the Chair, Executive Review Board, for final approval.
	After July 2009, the requests were forwarded to the Department of the Treasury for final approval.
Annual Recertification of Retention Incentives	
The circumstances that supported the initial retention request and approval of a retention incentive must be reviewed annually. If the retention incentive is to continue, the business unit Head of Office or equivalent official must certify that the circumstances supporting payment of the retention incentive still exist.	
The business unit must establish a process to ensure an annual review and either recertification or termination of retention incentives is done on a timely basis. The process must include mandatory termination, at least 1 pay period prior to the 1-year expiration date. Because the IRS does not use service agreements when authorizing a retention incentive, an employee will continue to receive the incentive biweekly until the incentive is terminated by management.	
Annual Recertification of Retention Incentives for Non-Senior Executives Prior to January 2010	
Each incentive was tracked and recertified on or prior to the anniversary date the incentive was originally signed.	
The Compensation Branch sent reminders to the business units of the need to recertify or terminate a retention incentive within 4-6 weeks from the anniversary date.	
The embedded HCO staff prepared a new Form 14063-B and checked the recertification box, performed a technical review, and the request was required to be signed by either the IRS Division Commissioner, Deputy Division Commissioner, Chief Officer, Deputy Chief Officer, or equivalent.	
Upon approval, a copy of the new recertification was forwarded to the Compensation Branch.	
Annual Recertification of Retention Incentives for Senior Executives, Prior to January 2011	
Each incentive was tracked and recertified on the anniversary date the incentive was originally signed. Prior to Calendar Year 2008, the annual recertification of retention incentives for SES employees was conducted in October of each year.	
The Office of Executive Services sent reminders to the business units of the need to recertify or terminate a retention incentive within 4-6 weeks from the anniversary date.	
Prior to July 2009, the annual recertification of the incentive was approved by the Chair, Executive Review Board. Between July 2009 and December 2009, the recertification of retention incentives were being worked out based on the Department of the Treasury's new guidelines. Procedures were established and then all retentions were put on an annual recertification date, effective January 2010.	

Annual Recertification of Retention Incentives for All Employees, Effective January 2010
In January 2010, the IRS HCO implemented an annual review and recertification process for all retention incentives (SES and non-SES).
The process includes the preparation of a separate consolidated spreadsheet for non-SES and SES employees.
Each spreadsheet includes employees who are currently receiving an incentive (name, retention percentage, retention amount, effective date). A separate Retention Incentive Annual Recertification Form is prepared for each non-SES and SES employee.

Source: IRS guidelines.

Appendix V

Management's Response to the Draft Report

HUMAN CAPITAL OFFICE

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

RECEIVED
AUG 30 2011

August 25, 2011

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: James P. Falcone
IRS Human Capital Officer

SUBECT: Review of The Internal Revenue Service's Use of Recruitment and Retention Incentives (Audit # 201110019)

We have reviewed the subject draft report and appreciate your recognition of the steps taken by the Internal Revenue Service (IRS) to improve the administration of recruitment and retention incentives. The Service's continued commitment to ensure that these incentives are used appropriately to both gain and retain knowledge that is critical to successfully fulfilling our mission is evidenced by changes that have been made, some more than a year ago, to further strengthen program administration. The impacts of these changes result in the closure of two of the five recommendations made in the draft audit report and are fully detailed in the attachment.

The Service has been consistent in strategically using incentives to ensure that the benefits gained represent effective use of discretionary spending. The Human Capital Office (HCO) continues to proactively explore and create improvements to the program. The draft report captures several enhancements that have already been initiated and that we believe could be considered as potential best practices. Improvements continue to be made that guarantee the success of the use of incentives while providing workforce flexibilities consistent with regulations and IRS policy. These actions were taken in addition to those captured in the draft report:

- To further reinforce the oversight and management of retention incentives, in Calendar Year (CY) 2010, the IRS implemented an annual retention incentive recertification process. The process requires each business and operating division to revalidate and justify the continued need for each retention incentive. All recertifications are completed at the same point in time to allow for a more comprehensive review. In CY 2011, the annual recertification instructions were revised to include the requirement that succession planning and knowledge transfer efforts be addressed in the written justification, further promoting prudent stewardship of the discretionary authority. This new requirement will be included in the Internal Revenue Manual, although Office of Personnel Management regulations have no such requirement.

2

Effective June 29, 2011, the Director, Workforce Progression and Management, communicated to all business and operating divisions that all requests for incentives be forwarded to the IRS HCO for technical review prior to final approval. This action, which allows for a consistent corporate approach and centralizes the incentive process, has been formally documented in our revised policies which are currently under review for final publication.

The IRS will continue to administer its incentive program in a manner that fosters confidence that taxpayer dollars will be spent in an appropriate manner. Attached is a detailed response outlining the corrective actions that the Human Capital Office will take to address your recommendations. If you have any questions, please contact Jim Falcone, IRS Human Capital Officer, at (202) 622-7676 or Rich Cronin, Director, Workforce Progression and Management Division, at (202) 622-4350.

Attachment

Attachment

TIGTA Audit 201110019 - The Administration of Recruitment and Retention Incentives Has Improved, but Additional Actions Should Be Taken

IRS Responses to Recommendations:

RECOMMENDATION 1: Revise the non-SES retention incentive request form to require details of how it is determined that an employee would likely leave the Federal Government in the absence of the incentive.

Comments:

The Retention Incentive Form 14063B for non-executive retention incentives was developed by the IRS to assist the requestor in making a determination. Part II of the form requires the requesting official to identify the supporting factors that apply to the request. Part III requires written documentation as to the basis for determining that the employee would be likely to leave the Federal service in the absence of the incentive. Doing this specifically requires the requestor to identify the facts that support the basis for determination that the employee will likely leave the service in the absence of an incentive.

CORRECTIVE ACTION(S): While the design of the current retention incentive form meets regulatory and policy requirements, the IRS will mirror language in the Treasury incentive request form to capture the basis for determining the employee is likely to leave Federal Service (i.e., *Describe how it was determined that the employee is likely to leave Federal Service in the absence of an incentive. An acceptable response could be a simple statement that the employee has indicated she will retire if she does not get an incentive of a certain amount. If the employee is not eligible to retire, this justification should be more specific about the executive's plans, offers, etc.*

IMPLEMENTATION DATE: February 15, 2012

RESPONSIBLE OFFICIAL: Director, Workforce Progression and Management Division

RECOMMENDATION 2: Work with the IRS business units to move responsibility for technical review of all non-SES recruitment and retention incentives to the HCO, Workforce Progression Management Division, Compensation and Leave Branch prior to submission to the appropriate IRS official for approval.

CORRECTIVE ACTION(S): Already Implemented

On June 29, 2011, the Director, Workforce Progression and Management Division, communicated to all business and operating divisions that effective immediately, all incentive requests must be forwarded to the HCO, Workforce Progression and Management Division, Compensation and Leave Branch, for technical review prior to approval. Official policy documents formalizing this change are currently under review.

The technical review is not a regulatory requirement; however, we think this process could be used across the Government to maximize the effective and efficient use of the discretionary authority.

IMPLEMENTATION DATE: June 29, 2011

RECOMMENDATION 3: Improve procedures to ensure that approvals for significant changes to group recruitment incentives, such as decisions to provide additional incentives or provide incentives to employees in other locations, are properly documented.

CORRECTIVE ACTION(S): Revise policy to include language stating that any increase to the number of incentives specified on a group incentive requires additional written approval.

IMPLEMENTATION DATE: September 30, 2011

RECOMMENDATION 4: Remind the business units annually, each year during the annual review of retention incentives, of the need to terminate incentives for employees who change positions and no longer qualify for the incentive.

CORRECTIVE ACTION(S): Already implemented

On December 21, 2010, the IRS HCO announced as part of the annual recertification process that a **new** justification explaining the business need to retain the employee is required for each incentive that will continue. Recertification requests without a detailed justification, to include succession planning and knowledge transfer efforts, will be terminated.

IMPLEMENTATION DATE: December 21, 2010

RECOMMENDATION 5: The IRS HCO should develop a methodology to assess the impact of the use of recruitment and retention incentives in helping IRS management meet long-term workforce planning goals. The methodology should include indicators to track and evaluate the use of recruitment and retention incentives.

CORRECTIVE ACTION(S): The IRS HCO, Workforce Progression and Management Division, Compensation and Leave Branch, will develop a methodology to assess the IRS incentive programs. This assessment will determine the value gained by using this program to meet long-term workforce goals. The Branch will solicit the assistance of the HCO Strategic Planning, Research, and Analysis Division in developing measures to track and evaluate the use of recruitment and retention incentives. The expected timeframe for developing the methodology and measures is by the end of Fiscal Year 2012.

IMPLEMENTATION DATE: December 15, 2012

RESPONSIBLE OFFICIAL: Director, Workforce Progression and Management Division