Treasury Inspector General for Tax Administration
Office of Audit

THE AWARDS PROGRAM COMPLIED WITH FEDERAL REGULATIONS, BUT SOME EMPLOYEES WITH TAX AND CONDUCT ISSUES RECEIVED AWARDS

Final Report Issued on March 21, 2014

Highlights

Highlights of Report Number: 2014-10-007 to the Internal Revenue Service Human Capital Officer.

IMPACT ON TAXPAYERS

For Fiscal Year 2011, the IRS awarded almost $92 million in cash and almost 520,000 hours of time off to 70,500 of its approximately 104,400 employees. For Fiscal Year 2012, the IRS awarded $86 million in cash and almost 490,000 hours of time off to 67,870 of its approximately 98,000 employees. These awards are designed to recognize and reward IRS employees for their performance. Oversight and control over these awards is important to ensure proper stewardship of Government funds and the effectiveness of the awards system.

WHY TIGTA DID THE AUDIT

This audit was initiated because new Federal guidance issued in Fiscal Year 2011 requires agencies to reduce spending on awards programs beginning in Fiscal Year 2012. The overall objectives of this review were to evaluate the IRS's compliance with procedures for expenditures on awards and to review the IRS's controls over awards made to employees with conduct and performance issues.

WHAT TIGTA FOUND

The IRS awards program complied with Federal requirements to limit awards expenditures and saved additional funds by keeping aggregate incentive payments, individual employee compensation, and aggregate awards below the Federal limits. According to the IRS, it took further actions in Fiscal Year 2013 to limit awards to the extent allowable by law.

However, between October 1, 2010 and December 31, 2012, more than 2,800 employees with recent substantiated conduct issues resulting in disciplinary action received approximately $2.8 million in monetary awards, more than 27,000 hours in time-off awards, and 175 quality step increases. Among these, more than 1,100 IRS employees with substantiated Federal tax compliance problems received more than $1 million in cash awards, more than 10,000 hours in time-off awards, and 69 quality step increases within a year after the IRS substantiated their tax compliance problem.

With few exceptions, the IRS does not consider tax compliance or other misconduct when issuing performance awards or most other types of awards. Governmentwide policies do not provide guidance on providing awards to employees with conduct issues. The IRS Restructuring and Reform Act of 1998 does not specifically mention awards, but does make mandatory the removal of IRS employees who are found to have intentionally committed certain acts of misconduct, including willful failure to pay Federal taxes. Thus, while not specifically prohibited, providing awards to employees with conduct issues, especially those who fail to pay Federal taxes, appears to create a conflict with the IRS's charge of ensuring the integrity of the system of tax administration.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS Human Capital Officer determine the feasibility of implementing a policy requiring management to consider conduct issues resulting in disciplinary actions, especially the nonpayment of taxes, prior to awarding all types of performance and discretionary awards.

The IRS agreed with TIGTA's recommendation. The Human Capital Officer plans to conduct a study by June 30, 2014, for the implementation of a policy requiring management to consider conduct issues resulting in disciplinary actions prior to awarding all types of performance and discretionary awards.

READ THE FULL REPORT

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

http://www.treas.gov/tigta/auditreports/2014reports/201410007fr.pdf.