TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Expanded Use of Special Payment Incentives Could Help Improve Recruitment and Retention Efforts

August 2, 2023

Report Number: 2023-10-043

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HIGHLIGHTS: Expanded Use of Special Payment Incentives Could Help Improve Recruitment and Retention Efforts

Final Audit Report issued on August 2, 2023 **Report Number 2023-10-043**

Why TIGTA Did This Audit

This audit was initiated to evaluate the IRS's efforts to use special payment incentives to hire and retain skilled non-Information Technology (IT) organization personnel. Information technology-related positions were excluded from this review because employee hiring and retention in the IT organization was the focus of a recent TIGTA audit report.

Hiring and retaining a skilled workforce is critical to support the IRS's mission. The Human Capital Office is delegated authority to provide human capital strategies and tools for recruiting, hiring, developing, and retaining a workforce to support the IRS. Federal agencies can use special payment incentives to recruit and retain employees, and to fill mission-critical skill gaps.

One of the IRS's hiring goals is to use Inflation Reduction Act of 2022 funding to hire 19,000 employees each year. While planning for attrition, the IRS expects a net increase of 5,000 to 10,000 employees per year.

Impact on Tax Administration

Failing to fill mission-critical positions can adversely impact the IRS's ability to successfully accomplish its tax administration responsibilities. In general, the IRS is facing an 8.5 percent three-year average attrition rate. The IRS anticipates that it will need to hire almost 26,000 non-IT organization employees in Fiscal Year 2023. The IRS may miss hiring and employee retention opportunities involving mission-critical positions by not maximizing the use of appropriate special payment incentives.

What TIGTA Found

The IRS can use various incentives to hire and retain individuals who possess skills which are critical to its functions; however, the IRS has only used these incentives on a limited basis. Between Fiscal Years 2019 and 2022, the IRS issued recruitment, retention, or relocation incentive payments to 1,466 employees from various non-IT organization business units, totaling just over $1.5 million. However, the vast majority of these payments, approximately $900,000, were retention incentives issued in Fiscal Year 2020 to 1,435 employees returning to work during the start of the Coronavirus Disease 2019 pandemic. The remaining 31 special payment incentives, totaling approximately $619,000, included:

- 12 recruitment incentives that ranged between approximately $4,800 and $64,000, with an average of $21,078.
- 14 retention incentives that ranged between approximately $200 and $27,000, with an average of $18,908.
- 5 relocation incentives that ranged between approximately $17,500 and $21,500, with an average of $20,281.

TIGTA reviewed a judgmental sample of the 17 recruitment and retention incentives that the IRS paid to employees during Fiscal Years 2019 through 2021 and determined that they were all properly reviewed, approved, and processed in compliance with the recruitment and retention incentive requirements. However, the IRS needs to expand its use of special payment incentives to increase efforts to hire or retain mission-critical personnel and reduce related personnel shortages.

In addition, the IRS piloted the use of Critical Position Pay Authority in response to prior TIGTA recommendations. Specifically, in March and June 2019, the IRS submitted six requests to hire or retain Senior Executive Service positions designated as mission-critical. It took almost three years from the initial drafting of the business case to receive approval for all six hiring requests. As a result, the IRS does not have plans to continue the use of Critical Position Pay Authority.

What TIGTA Recommended

TIGTA recommended that the Human Capital Officer should develop workforce planning initiatives to identify mission-critical positions on a recurring basis and expand the use of special payment incentives to recruit and retain highly skilled non-IT organization employees.

The IRS agreed with our recommendation and plans to develop workforce demand forecasts to include consideration of special pay for mission-critical business functions, assess the health of mission-critical occupations, and develop a strategy for using financial incentives to recruit and retain mission-critical occupations.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

August 2, 2023

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

Heather Hill

FROM: Heather M. Hill
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Expanded Use of Special Payment Incentives Could Help Improve Recruitment and Retention Efforts (Audit # 202210019)

This report represents the results of our review to evaluate the Internal Revenue Service's efforts to use special payment incentives to hire and retain skilled non-Information Technology organization personnel. This review is part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management and performance challenge of *Increasing Domestic and International Tax Compliance and Enforcement*.

Management's complete response to the draft report is included as Appendix III. If you have any questions, please contact me or Bryce Kisler, Assistant Inspector General for Audit (Management Services and Exempt Organizations).

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Background

In Calendar Year 2016, the Internal Revenue Service (IRS) began developing a strategic workforce plan and conducting workforce planning activities to mitigate the risks associated with limited resources available to perform human capital activities. The IRS Commissioner delegated this responsibility to the Human Capital Office (HCO) to be the lead coordinator for these efforts. The HCO is responsible for providing human capital strategies and tools for recruiting, hiring, developing, and retaining a skilled workforce to support the IRS. However, the Government Accountability Office (GAO) reported in March 2019 that IRS strategic workforce planning was not consistently performed because of HCO resource constraints.[1]

Over 43,000 employees separated from the IRS between Fiscal Years (FY) 2019 and 2022. As a result, the IRS had an 8.5 percent three-year average attrition rate at the end of FY 2022.[2] In FY 2022, the largest aggregate losses were in the Wage and Investment (7,215 employees) and Small Business/Self-Employed Divisions (2,841 employees).[3] However, the IRS hired new employees at a rate that increased its overall labor force from 75,966 employees at the end of FY 2019 to 82,907 employees at the end of FY 2022.

In November 2022, the IRS provided initial hiring projections for FY 2023 based on the additional funding provided by the Inflation Reduction Act of 2022 (IRA).[4] The IRA allocated an additional $78.9 billion to the IRS through September 30, 2031, to improve taxpayer services, update antiquated computer systems, and increase tax compliance and enforcement efforts. For all business units (excluding the Information Technology (IT) organization), the IRS anticipates hiring 11,987 new employees to replace attrition losses as well as an additional 13,712 new employees.[5] In April 2022, the IRS Commissioner testified that the IRS will need to hire an additional 52,000 employees over the next six years just to maintain its current staffing levels.[6]

Federal agencies can provide additional compensation by using special payment incentives to recruit and retain employees with mission-critical skills. Currently, the IRS has multiple options to hire and retain individuals who possess skills that are critical to its operations. Specifically, Title 5 of the United States Code (U.S.C.) allows for the payment of recruitment, relocation, and retention incentives as well as established Critical Position Pay Authority (CPPA), which allows for a higher rate of pay because the position cannot be filled with an exceptionally well-qualified individual through the use of other available human resources flexibilities and pay authorities.

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[1] GAO, GAO-19-176, *Internal Revenue Service: Strategic Human Capital Is Needed to Address Serious Risks to IRS's Mission* (Mar. 2019).

[2] See Appendix IV for a glossary of terms.

[3] See Appendix II for a summary of employees who separated by IRS business unit, office, or organization, between FYs 2019 and 2022.

[4] Pub. L. No. 117–169.

[5] Information technology-related positions were excluded from our review because the IT organization was the focus of a recent audit report, Treasury Inspector General for Tax Administration, Report No. 2021-20-028*, Opportunities Exist to Improve Hiring and Retaining Employees With Information Technology Expertise* (June 2021).

[6] Written testimony of the Commissioner of Internal Revenue, Charles Rettig, On the Filing Season and IRS operations, House Ways and Means, Subcommittee on Oversight (Apr. 21, 2022).

- **Recruitment incentives** may be paid to a newly appointed employee if the agency determines that the position will be difficult to fill without the incentive. IRS policy determines recruitment incentive amounts based on the employee's General Schedule (GS) grade or pay band. Per IRS policy, non-management employees in the GS-11 through 15 grades can be offered a recruitment incentive of up to 15 percent of their basic pay, GS 5 through 9 employees can receive up to $5,000, and employees in the management pay bands can receive up to 25 percent of their basic pay.[7]
- **Relocation incentives** may be paid to a current employee who must relocate to accept a position in a different geographic area if the agency determines that the position will be difficult to fill without the incentive. IRS policy states that employees in the GS-5 through 15 grades can be offered a relocation incentive of up to 15 percent of their basic pay and employees in the management pay bands can receive up to 25 percent.[8]
- **Retention incentives** may be paid to a current employee if the agency determines that the employee's unique qualifications make it essential to retain the employee and the employee is likely to leave Federal service without the incentive. IRS policy states that employees in the GS-5 through 13 grades can be offered up to 10 percent of their basic pay, and employees in the GS-14 and 15 grades can be offered 20 percent.[9] Employees in management pay bands can receive up to 25 percent of their basic pay.[10]
- **Critical Position Pay Authority** allows an agency to pay a higher rate of pay for a position that requires an extremely high level of expertise in a scientific, technical, professional, or administrative field and must be critical to the successful accomplishment of the agency's mission. An agency must seek the approval of the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB) to pay annual salaries up to the Executive Schedule Level I, which is currently at $235,600 for FY 2023, for approved staff members.[11]

Results of Review

Special Payment Incentives Should Be Used to Improve Workforce Planning Initiatives

The IRS has only used special payment incentives on a limited basis to aid in its recruitment, relocation, and retention efforts. IRS policy states that special payments may be authorized

[7] 5 U.S.C. § 5753, 5 CFR pt. 575, subpart A, and Internal Revenue Manual (IRM) 6.575.1.2.8(3), *Determining the Amount of the Recruitment Incentive* (Sept. 24, 2013) detail regulations authorizing payment of recruitment incentives.

[8] 5 U.S.C. § 5753, 5 CFR pt. 575, subpart B, and IRM 6.575.1.3.8(3), *Determining the Amount of the Relocation Incentive* (Mar. 3, 2020) detail regulations authorizing payment of relocation incentives.

[9] 5 U.S.C. § 5754, 5 CFR pt. 575, subpart C, and IRM 6.575.1.4.8(3), *Determining the Amount of the Retention Incentive* (Sept. 24, 2013) detail regulations authorizing payment of retention incentives.

[10] The IRS management pay band structure includes frontline managers, department managers, and senior managers.

[11] Under 5 U.S.C. § 5377 and 5 CFR pt. 535, the OPM, in consultation with the OMB, may, upon the request of an agency head, grant authority to fix the rate of basic pay for one or more positions at a rate higher than the rate that would otherwise be payable for the position(s).

when circumstances warrant, such as when the IRS is likely to have difficulty recruiting and retaining qualified candidates with the competencies required for a position or group of positions without the special payment incentives.[12] The IRS's current process to request the use of recruitment or retention incentives for a specific mission-critical position or group of positions relies on the individual business units identifying a candidate or job position to provide the incentive. Although IRS policy delegates the HCO with the responsibility of providing human capital strategies and tools for recruiting and retaining a skilled workforce, the HCO has not fully implemented the IRS's workforce planning initiative.

Between FYs 2019 and 2022, the IRS issued recruitment or retention payments to 1,466 employees from various non-IT organization business units, totaling just over $1.5 million.[13] However, the vast majority of these incentives, totaling over $900,000, were issued to 1,435 employees returning to work during the start of the Coronavirus Disease 2019 pandemic. These employees performed activities required to support mission-essential functions related to collections, examinations, and the processing of tax returns.[14] These duties are not telework-eligible and require the physical presence of staff in the office.

Outside of the 1,435 retention incentives, there were only 31 incentives, totaling $619,055, paid to non-IT organization employees during this time frame.[15] This included:

- 12 recruitment incentive payments that ranged between approximately $4,800 and $64,000, with an average of $21,078.
- 14 retention incentive payments that ranged between approximately $200 and $27,000, with an average of $18,908.
- 5 relocation incentive payments that ranged between approximately $17,500 and $21,500, with an average of $20,281.

Figure 1 shows the total of all the special payment incentives issued by the IRS for non-IT organization employees between FYs 2019 and 2022.

[12] IRM 6.575.1.1.1, *Background* (Mar. 3, 2020), and IRM 6.575.1.2.1, *Recruitment Incentive Definitions* (Mar. 3, 2020).

[13] IRS business units that awarded special payment incentives included the Small Business/Self-Employed and Wage and Investment Divisions as well as the Facilities Management and Security Services function and the IRS Independent Office of Appeals.

[14] During the start of the Coronavirus Disease 2019 pandemic, IRS facilities were generally shut down by shelter-in-place orders. Essential IRS personnel were required to continue working in person at IRS offices, while non-essential employees could telework rather than work physically at an IRS office.

[15] In FY 2020, there were 1,435 retention incentives totaling $915,613 that were awarded for pandemic-related purposes.

Figure 1: Special Payment Incentives Paid to Non-IT Organization Employees for FYs 2019 Through 2022

Category	Payments	FY 2019	FY 2020	FY 2021	FY 2022	Total
Recruitment	12	$0	$73,533	$24,801	$154,600	$252,934
Retention	14	$60,884	$41,572	$53,834	$108,427	$264,717
Relocation	5	$0	$0	$0	$101,404	$101,404
Total	**31**	**$60,884**	**$115,105**	**$78,635**	**$364,431**	**$619,055**

Source: Treasury Integrated Management Information System Retention, Recruitment, and Relocation file.

During FY 2022, the IRS lost a total of 917 revenue agents, representing nearly 11 percent of the 8,719 revenue agents present at the beginning of the year. The Department of the Treasury and IRS officials previously identified five causes of high revenue agent turnover, which included dissatisfaction with developmental opportunities and pay.[16] According to the Federal Salary Council, the Federal workforce earned 22.47 percent less than private sector employees in Calendar Year 2022. While the IRS has made progress providing developmental opportunities through rotational details, the IRS has yet to fully address pay concerns raised in the GAO report issued in March 2019. To improve staffing retention, the IRS should consider expanding the use of retention incentives to encourage experienced revenue agents to remain with the agency.

Further, the use of special payment incentives could be incorporated into mission-critical hiring needs as identified by the IRS through its strategic planning. This includes conducting skill gap assessments to identify mission-critical positions and providing suggestions to hiring officials to increase the appropriate use of special payments to qualifying individuals. The IRS stated that during May 2022, it took actions to identify mission-critical positions based on occupations that most closely aligned with the most recent IRS Strategic Plan and that going forward, the IRS will perform regular and planned recurring skill gap assessments to focus on identifying staffing and competency gaps for designated mission-critical positions.

One of the IRS's hiring goals is to use IRA funding to hire 19,000 employees each year. While planning for attrition, the IRS expects a net increase of 5,000 to 10,000 employees per year. As part of its expanded hiring efforts, the use of special payment incentives could assist the IRS to fill mission-critical positions and reduce the challenges of hiring and retaining employees.

Recommendation 1: The Human Capital Officer should develop workforce planning initiatives to identify mission-critical positions on a recurring basis and expand the use of special payment incentives to recruit and retain highly skilled non-IT organization employees.

> **Management's Response:** The IRS agreed with this recommendation. The HCO will coordinate with business units and other key stakeholders to formalize a new business approach to reconcile workforce planning demand forecasts with implementation of deliberate human resource strategies, including consideration of special pay for mission-critical business functions and produce a strategic workforce plan. The HCO will also implement the mission-critical occupation life cycle framework by developing and

[16] The other three main causes of high revenue agent turnover include job-related stress, low office morale, and the inability to participate in decision-making.

implementing an assessment component for evaluating the health of IRS mission-critical occupations and establishing a data-driven process to recommend and monitor the implementation of strategic human resource strategies. Finally, the HCO will develop a comprehensive Service-wide strategy for using financial incentives to recruit and retain mission-critical occupations.

Procedures Were Followed When Reviewing, Approving, and Processing Recruitment and Retention Incentives

We determined that recruitment and retention incentives paid to IRS employees were properly reviewed, approved, and processed in compliance with the recruitment and retention incentive requirements in the Internal Revenue Manual (IRM).[17] Special payment incentive requests should be reviewed and approved by the appropriate management official, and the IRS should confirm that the employees did not have any misconduct or tax compliance issues.

For our judgmental sample of 17 incentives paid to employees between FYs 2019 and 2021, nine of the 17 requests were recruitment incentives and eight were retention incentives.[18] Three of these 17 requests were for Senior Executive Service positions and 14 were for GS positions. Our analysis determined that for the 17 requests:

- All incentive requests were reviewed by the appropriate IRS or Department of the Treasury official.
- All incentive requests were approved by the proper requestor; one level higher than the employee's supervisor.
- All employees receiving incentives went through conduct and tax compliance prescreening, and the outcomes of both were negative.

The IRS must document a business case for justifying the need and use of recruitment or retention incentive requests for a specific mission-critical position or group of positions. This documentation includes the determination that a position or group of positions is likely to be difficult to fill without the incentive. We also reviewed a random sample of 10 retention incentive requests from the 1,435 special payment incentives awarded to employees during FY 2020. We determined that all 10 incentive requests had complete documentation to support the special payment incentive.

The Critical Position Pay Authority Pilot

In July 2017, the Treasury Inspector General for Tax Administration reported that from the inception of the CPPA in Calendar Year 1990 until November 2017, the IRS did not use the

[17] IRM 6.575.1 (Mar. 3, 2020).

[18] A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population. The 17 requests remained after excluding the 1,435 retention incentives issued to employees returning to work during the start of the Coronavirus Disease 2019 pandemic in FY 2020. There were no relocation incentives paid to non-IT organization employees during our review period.

program to hire new employees.[19] However, the IRS piloted the use of CPPA by completing and forwarding an initial package of mission-critical positions to the Secretary of the Treasury for approval, and tracked the details of the time and effort it took to get the packages cleared internally, approved by the Secretary of the Treasury, and then in turn approved by the OPM and the OMB.

To request the use of CPPA, the OPM regulations require agencies to:[20]

- Submit written requests describing the position and the qualifications of any incumbent or prospective candidates.
- Document the level of expertise required and explain how any incumbent or candidate is exceptionally well qualified for the position.
- Demonstrate that the use of other human resources flexibilities has not enabled the agency to fill the position.
- Explain why the position is critical to an important agency mission and the potential impact if the agency is unable to fill the position with an exceptional candidate.

In March and June 2019, the IRS submitted six CPPA requests (through the Department of the Treasury) to the OPM to hire or retain Senior Executive Service positions designated as mission-critical. It took almost three years to receive approval for all six hiring requests from the initial drafting of the business case to obtaining OPM and OMB approvals. The majority of the time was spent waiting for the Department of the Treasury and OPM approvals. As a result, the IRS does not have plans to continue using CPPA.

Although the piloted CPPA program proved to be a lengthy approval process, increased use of the other special payment incentives could assist the IRS's recruitment and retention efforts without the burden of obtaining the approval of the OPM and the OMB, especially considering the IRS's enhanced hiring plans as a result of the recently passed IRA.

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[19] Treasury Inspector General for Tax Administration, Report No. 2017-IE-R007, *The Internal Revenue Service Has Not Used Critical Position Pay Authority to Hire Employees* (July 2017).

[20] 5 U.S.C. § 5377.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to evaluate the IRS's efforts to use special payment incentives to hire and retain skilled non-IT organization personnel. To accomplish our objective, we:

- Identified and reviewed relevant laws, regulations, policies, and procedures regarding the IRS's use of special payment incentives to fill mission-critical positions.
- Analyzed Treasury Integrated Management Information System data to identify separations of all IRS employees by business unit for FYs 2019 through 2022.
- Determined the status of efforts taken by the IRS to use special payment incentives to recruit and retain employees for mission-critical positions.
- Determined whether the IRS has considered using special payment incentives on mission-critical positions identified by the OPM and the Department of the Treasury, through interviews and a review of associated documents, such as the strategic workforce plan.
- Reviewed a judgmental sample of 17 incentives paid during FYs 2019 through 2021 and determined whether special payment incentives made to non-IT organization employees were properly reviewed, approved, and processed in compliance with existing guidelines required in the IRM.[21]
- Determined whether the IRS has identified non-IT organization mission-critical positions that could be filled using CPPA.

Performance of This Review

This review was performed at the IRS National Headquarters in Washington, D.C., in the HCO during the period October 2021 through March 2023. 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.

Major contributors to the report were Bryce Kisler, Assistant Inspector General for Audit (Management Services and Exempt Organizations); LaToya George, Director; Brian Foltz, Acting Director; Seth Siegel, Audit Manager; George Hartman, Lead Auditor; and Gary Pressley, Senior Auditor.

Validity and Reliability of Data From Computer-Based Systems

We performed tests to assess the reliability of the data from the Treasury Integrated Management Information System. We evaluated the data by 1) performing electronic testing of

[21] A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

required data elements, 2) reviewing existing information about the data and the system that produced them, and 3) interviewing IRS officials knowledgeable about the data. We determined that the data were sufficiently reliable for purposes of this report.

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 that the following internal controls were relevant to our audit objective: the IRS's policies and procedures for identifying mission-critical positions and the payment of recruitment, relocation, and retention incentives. We evaluated these controls by interviewing IRS management as well as reviewing documentation supporting the process used to estimate and track the use of special payment incentives for FYs 2019 through 2022.

Appendix II

Employees Who Separated by Business Unit, Office, or Organization Between Fiscal Years 2019 and 2022

Business Unit	Employees Separated			
	FY 2019	FY 2020	FY 2021	FY 2022
IRS Independent Office of Appeals	124	97	105	127
Office of Chief Counsel	216	155	180	245
Communications and Liaison	31	22	18	21
National Headquarters	109	23	7	14
National Taxpayer Advocate	181	123	115	171
Criminal Investigation	243	180	219	252
Large Business and International Division	369	236	302	384
Office of Professional Responsibility	0	0	0	0
Office of Online Services	0	6	11	9
Return Preparers Office	0	5	9	10
Small Business/ Self-Employed Division	1,872	1,851	2,011	2,841
Tax Exempt and Government Entities Division	140	93	114	146
Wage and Investment Division	8,303	4,012	7,030	7,215
Whistleblower Office	0	2	2	2

Business Unit	Employees Separated			
	FY 2019	FY 2020	FY 2021	FY 2022
Office of the Chief Financial Officer	43	26	26	35
Enterprise Case Management Office[22]	0	1	3	3
Office of Equity, Diversity, and Inclusion	0	9	12	20
Facilities Management and Security Services Division	82	88	82	90
HCO	203	148	149	200
IT Organization	455	326	352	460
Office of the Chief Risk Officer	0	0	3	2
Privacy, Governmental Liaison, and Disclosure Division	25	22	30	33
Office of the Chief Procurement Officer	0	27	42	47
Research, Applied Analytics, and Statistics Function	0	11	16	20
Total	**12,396**	**7,463**	**10,838**	**12,347**

Source: Treasury Integrated Management Information System Separations file for FYs 2019 through 2022 losses.

[22] IRS Source has the Enterprise Case Management Office listed as the Enterprise Digitization and Case Management Office when they are actually sister organizations.

Appendix III

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

HUMAN CAPITAL OFFICE

June 27, 2023

MEMORANDUM FOR HEATHER M. HILL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Traci M. DiMartini
IRS Human Capital Officer

Traci M. DiMartini

Digitally signed by Traci M. DiMartini
Date: 2023.06.27 07:38:34 -04'00'

SUBJECT: Draft Audit Report – Expanded Use of Special Payment Incentives Could Help Improve Recruitment and Retention Efforts (202210019)

Thank you for the opportunity to review and comment on the subject draft report, which evaluated the IRS's efforts to use special payment incentives to hire and retain skilled non-Information Technology (IT) organization personnel.

We appreciate and agree with the report's acknowledgement that the IRS successfully issued recruitment or retention payments to 1,466 employees from various non-IT organization business units, totaling just over $1.5 million. We are pleased to see that, based on the sample review, TIGTA determined that these incentive payments were properly reviewed, approved and processed in compliance with the recruitment and retention incentive requirements.

The IRS acknowledges that there are opportunities to expand the utilization of special payment incentives to achieve IRS staffing levels required by the Inflation Reduction Act (IRA). The IRS strategic workforce planning function is a critical enabler to strengthen the internal partnerships to proactively identify key roles that will have the largest impact and return on investment for delivering the IRS transformation. The IRS human capital management strategies and procedures must evolve and enable new ways of strategically working with business units to expand the usage of special payment incentives to aid in recruitment, relocation, and retention efforts.

IRS concurs with the TIGTA recommendation and has already been taking steps to strengthen our workforce planning capabilities. After the 2019 Government Accountability Office 19-176 Human Capital Management Audit, the IRS Human Capital Office (HCO) established an enterprise workforce planning and analysis office. Our workforce planning team has made measurable progress developing and implementing strategic workforce planning capabilities including but not limited to:

- Developing FY23 workforce demand forecasts to support strategic hiring operations.

- Defining a Mission Critical Occupation (MCO) lifecycle that includes a framework for identifying MCOs and conducting regular and recurring health assessment of designated occupational series groups.
- Publication of a new IRS FY22-26 MCO list for the first time since 2009.

Comprehensive strategic workforce planning is a Servicewide responsibility and must be institutionalized consistently by all IRS business organizations to effectively increase the utilization of Servicewide Human Resource strategies, including expanding the use of special payment incentives. HCO has primary responsibility for coordinating Service-level planning mechanisms and capabilities. Full adoption and implementation will require support from key stakeholders, senior executive leaders, and accountability protocols to be effective. HCO will continue to coordinate with Business Units and other key stakeholders to elevate that workforce planning function.

Special payment incentives are just one tool available to the IRS to address the recruitment and retention of employees in MCOs. The IRS is committed to pursuing all options that may assist with our recruitment and retention efforts. Objective 5 in the IRS's IRA Strategic Operating Plan is focused on attracting, retaining, and empowering a highly skilled, diverse workforce and developing a culture that is better equipped to deliver results for taxpayers. These initiatives will enable the IRS to:

- Grow our workforce to meet the mission of the agency and to ensure adequate enforcement of the tax law.
- Adopt strategies and technologies to keep pace and evolve with changes, enabling new ways of working while ensuring our people are engaged, agile and highly skilled, including in data and analytics, and have access to the information they need to work effectively.
- Modernize our technologies, policies and processes to deliver an employee experience that helps employees focus on the mission.
- Build recruiting capabilities to attract and retain a broader and more diverse workforce motivated by our mission and the opportunity for public service. Focus will be on diverse and talented people in historically underreached and underrepresented communities to reflect the diverse population that the IRS serves.
- Create flexible development opportunities and a workplace experience that fosters inclusion and professional growth for current and future employees.

Attached is a detailed response outlining the corrective action(s) that the Human Capital Office will take to address your recommendations. If you have any questions, please contact me at (202) 317-3174, or a member of your staff may contact Scott Delaney, Director, HCO Policy and Audits, at scott.c.delaney@irs.gov .

Attachment

Attachment

RECOMMENDATION 1:
The Human Capital Officer should develop workforce planning initiatives to identify mission-critical positions on a recurring basis and expand the use of special payment incentives to recruit and retain highly skilled non-IT organization employees.

CORRECTIVE ACTIONS:
IRS concurs with the recommendation.

CORRECTIVE ACTION 1:
HCO will coordinate with Business Units and other key stakeholders to formalize a new business approach to reconcile workforce planning demand forecasts with the implementation of deliberate HR strategies including consideration of special pay for mission-critical business functions and produce a strategic workforce plan.

IMPLEMENTATION DATE:
December 15, 2023

RESPONSIBLE OFFICIAL(S):
Director, HCO Strategy & Planning

CORRECTIVE ACTION(S) MONITORING PLAN:
We will enter accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES), monitor progress towards completion on a monthly basis, and upload supporting documentation into JAMES with Form 13872 Planned Corrective Action (PCA) Status Update for TIGTA/GAO/MW/SD/TAS/REM.

CORRECTIVE ACTION 2:
HCO will implement the MCO lifecycle framework by developing and implementing an assessment component for evaluating the health of IRS MCOs and establishing a data-driven process to recommend and monitor the implementation of strategic HR strategies.

IMPLEMENTATION DATE:
December 15, 2023

RESPONSIBLE OFFICIAL(S):
Director, HCO Strategy & Planning

CORRECTIVE ACTION(S) MONITORING PLAN:
We will enter accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES), monitor progress towards completion on a monthly basis, and upload

Attachment

supporting documentation into JAMES with Form 13872 Planned Corrective Action (PCA) Status Update for TIGTA/GAO/MW/SD/TAS/REM.

CORRECTIVE ACTION 3:
HCO will develop a comprehensive Servicewide strategy for using financial incentives to recruit and retain mission critical occupations.

IMPLEMENTATION DATE:
July 15, 2024

RESPONSIBLE OFFICIAL(S):
Director, Policy & Audits

CORRECTIVE ACTION(S) MONITORING PLAN:
We will enter accepted Corrective Actions into the Joint Audit Management Enterprise System (JAMES), monitor progress towards completion on a monthly basis, and upload supporting documentation into JAMES with Form 13872 Planned Corrective Action (PCA) Status Update for TIGTA/GAO/MW/SD/TAS/REM.

Appendix IV

Glossary of Terms

Term	Definition
Attrition Rate	A metric used to measure the pace at which employees are lost over a set period of time. It is also used interchangeably with terms like employee turnover or churn rate. The attrition rate accounts for employees who leave either voluntarily, *i.e.*, resignation, retirement, or promotion, or involuntarily, *i.e.*, termination. Employers often use the employee attrition rate to forecast the number of expected job vacancies within an organization.
Business Case	Provides a justification for undertaking a project, program, or portfolio. It evaluates the benefit, cost, and risk of alternative options, and provides a rationale for the preferred solution.
Coronavirus Disease 2019	A respiratory disease caused by the Severe Acute Respiratory Syndrome Coronavirus-2; a new coronavirus discovered in 2019. The virus is thought to spread mainly from person to person through respiratory droplets produced when an infected person coughs, sneezes, or talks.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
General Schedule	The classification and pay system established under 5 U.S.C. Chapter 51 and Subchapter III of Chapter 53. It is a rate of basic pay for professional, technical, administrative, and clerical professionals working for the Federal Government.
Internal Revenue Manual	Primary source of instructions to employees relating to the administration and operation of the IRS. The Manual contains the directions employees need to carry out their operational responsibilities.
Non-Information Technology Organization	All other IRS business units, offices, and organizations except for the IT organization.
Office of Management and Budget	Federal agency that oversees the preparation and administration of the Federal budget and coordinates Federal procurement, financial management, information, and regulatory policies.
Office of Personnel Management	Federal agency that serves as the chief human resources and personnel policy manager for the Federal Government.
Pay Band	A system for grouping positions for pay, job evaluation, and other purposes that is often implemented by compressing the 15 GS grades into four pay bands. These pay bands typically range from GS-1 to GS-5, GS-6 to GS-11, GS-12 to GS-13, and GS-14 to GS-15. Each pay band has a minimum and maximum pay. Within these bands, pay is based on employee performance.

Term	Definition
Revenue Agent	Employees in the Examination function who conduct face-to-face examinations of more complex tax returns, such as businesses, partnerships, corporations, and specialty taxes.
Senior Executive Service	Consists of executive positions, including managerial, supervisory, and policy positions classified above the GS-15 grade or equivalent positions in most Executive Branch agencies of the Federal Government.
Treasury Integrated Management Information System	An official automated personnel and payroll system for storing and tracking all employee personnel and payroll data. It is outsourced to the U.S. Department of Agriculture's National Finance Center and managed by the Department of the Treasury.

Appendix V

Abbreviations

CPPA	Critical Position Pay Authority
FY	Fiscal Year
GAO	Government Accountability Office
GS	General Schedule
HCO	Human Capital Office
IRA	Inflation Reduction Act of 2022
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IT	Information Technology
OMB	Office of Management and Budget
OPM	Office of Personnel Management
U.S.C.	United States Code

To report fraud, waste, or abuse,
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