TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Planning Efforts to Hire Employees Who Conduct Audits of High Earners and Large Businesses Could Be Improved

June 1, 2023

Report Number: 2023-10-025

TIGTACommunications@tigta.treas.gov | www.treasury.gov/tigta

HIGHLIGHTS: Planning Efforts to Hire Employees Who Conduct Audits of High Earners and Large Businesses Could Be Improved

Final Audit Report issued on June 1, 2023 **Report Number 2023-10-025**

Why TIGTA Did This Audit

In July 2021, the House of Representatives, Committee on Appropriations, requested that TIGTA "review the IRS's strategy to recruit and train employees to conduct audits of high earners and large businesses that underreport income as well as to collect taxes from taxpayers who have the ability to pay their outstanding debts, while also protecting taxpayer rights in the course of its enforcement efforts."

IRS enforcement function full-time equivalent employees have declined from Fiscal Years (FY) 2010 through 2021 due to budget decreases.

This reduction to enforcement function staffing levels has affected the total enforcement revenue collected by the IRS.

This audit was initiated to evaluate the IRS's strategy to recruit employees to conduct audits of high earners and large businesses. A separate report on the IRS's examination training strategy will be issued later this fiscal year.

Impact on Tax Administration

The Inflation Reduction Act of 2022 (IRA) provides almost $79 billion to the IRS for the next nine years to fund various priorities that include overhauling technology to improve enforcement efforts. An ineffective recruitment and hiring strategy could negatively impact the IRS's ability to increase audits of high earners and large businesses that underreport income.

What TIGTA Found

The IRA provided the IRS with approximately $45.6 billion dedicated to enforcement activities. On May 19, 2021, in written testimony to the Subcommittee on Financial Services and General Government, the IRS Commissioner stated that, among other operational directives, this appropriation will facilitate the hiring and training of auditors to focus on complex investigations of large businesses, partnerships, and global high-wealth taxpayers. The IRS has initiated planning efforts to hire these employees, with the majority working in the IRS's Large Business and International (LB&I) and Small Business/Self-Employed (SB/SE) Divisions.

Reductions to IRS enforcement function staffing levels over the last decade have affected the total enforcement revenue collected. The IRS estimated that the gross annual Tax Gap for Tax Years 2014 to 2016 was $496 billion, and projects that for Tax Years 2017 to 2019, it will increase to $540 billion per year. A reduction in the number of enforcement function employees may affect the IRS's ability to maintain sufficient audit coverage of entities and individuals contributing the most to the Tax Gap and limit its efforts to collect the taxes taxpayers acknowledge they owe but have not paid.

The IRS estimates that, with existing hiring actions and expected attrition, the LB&I Division could hire approximately 450 positions and the SB/SE Division could hire approximately 2,300 positions without exceeding their authorized staffing levels. However, the hiring surge of 10,000 employees to assist in reducing the tax return filing backlog for the Wage and Investment Division's Submission Processing and Accounts Management functions has prevented the LB&I and SB/SE Divisions from hiring more employees to increase audits of high earners. Further, the LB&I and SB/SE Divisions have not maintained their authorized staffing levels with normal attrition and the hiring of new employees to replace those who have left the business units.

A draft of the SB/SE Division's FY 2023 hiring goals includes additional revenue agent hires. Increased examination hiring is also part of the LB&I Division's overall hiring plan for FY 2023. The IRS issued the IRA Strategic Operating Plan in April 2023. The plan estimates that, through the end of FY 2024, there will be a total growth of approximately 20,000 employees funded by the IRA. Approximately 7,000 full-time equivalent employees are planned for enforcement business units. This report presents a pre-IRA snapshot of IRS enforcement hiring efforts.

What TIGTA Recommended

TIGTA recommended that the IRS establish a plan to effectively manage changes in hiring volume and improve communication channels across business units to mitigate the effects of large hiring surges. The IRS agreed with TIGTA's recommendations.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

June 1, 2023

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

Heather Hill

FROM: Heather M. Hill
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Planning Efforts to Hire Employees Who Conduct Audits of High Earners and Large Businesses Could Be Improved (Audit # 202210035)

This report presents the results of our evaluation of the Internal Revenue Service's strategy to recruit employees to conduct audits of high earners and large businesses that underreport income as well as to collect taxes from taxpayers who have the ability to pay their outstanding debts. We are performing this review as requested by the House of Representatives, Committee on Appropriations. 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 II. If you have any questions, please contact me or Bryce Kisler, Assistant Inspector General for Audit (Management Services and Exempt Organizations).

Table of Contents

Background

The Internal Revenue Service's (IRS) mission is to help taxpayers understand and meet their tax responsibilities and enforce the law with integrity and fairness to all. According to Publication 4450, *Fiscal Year 2023 Congressional Budget Justification & Annual Performance Report and Plan* (Rev. 3-2022), the IRS is the primary source of funding for the U.S. Government. In Fiscal Year (FY) 2021, the IRS collected more than $4 trillion in gross taxes.

Due to decreases in its budget, the IRS's enforcement functions' full-time equivalent (FTE) employees have declined 30 percent from approximately 50,000 in FY 2010 to approximately 35,000 in FY 2021.[1] During the same time frame, IRS-wide FTEs have decreased only 17 percent, from approximately 94,700 in FY 2010 to almost 78,700 in FY 2021. On April 7, 2022, in written testimony to the Senate Finance Committee, the IRS Commissioner stated that the IRS's budget has decreased by more than 15 percent in real terms over the last decade. Further, the IRS Commissioner also indicated that hiring freezes contributed to this staffing decline. Reductions to enforcement function staffing levels from FYs 2010 to 2021 have also affected the total enforcement revenue collected by the IRS. The IRS stated that, if enforcement staffing had been maintained at its FY 2010 levels, it could have collected an additional $98 billion over the past 11 years. Reduced FTEs may affect the IRS's ability to maintain sufficient audit coverage of entities and individuals contributing the most to the Tax Gap and limit its efforts to collect the taxes that taxpayers acknowledge they owe but have not paid.[2]

The IRS estimated that the gross Tax Gap for Tax Years 2014 through 2016 was $496 billion per year.[3] Large businesses underreporting income contributed $23 billion to the gross annual Tax Gap, and individuals that underreported business income contributed $130 billion. Enforcement and other late payments resulted in $68 billion of tax collected, which resulted in a net annual Tax Gap of $428 billion. The IRS projects that the gross Tax Gap for Tax Years 2017 to 2019 will increase to $540 billion per year. This projection included large businesses underreporting income contributing $22 billion to the gross Tax Gap but did not include an estimate of individuals that underreported business income.

The IRS's Enforcement appropriation provides funding for a number of activities, including the identification of underreporting of tax obligations and collection of unpaid accounts. The IRS has requested increases in its Enforcement appropriation in recent years. As a part of these requests, the IRS wanted to increase funding for the program initiative dedicated to tax return examinations of large businesses and global high-wealth (GHW) taxpayers in FYs 2022 and

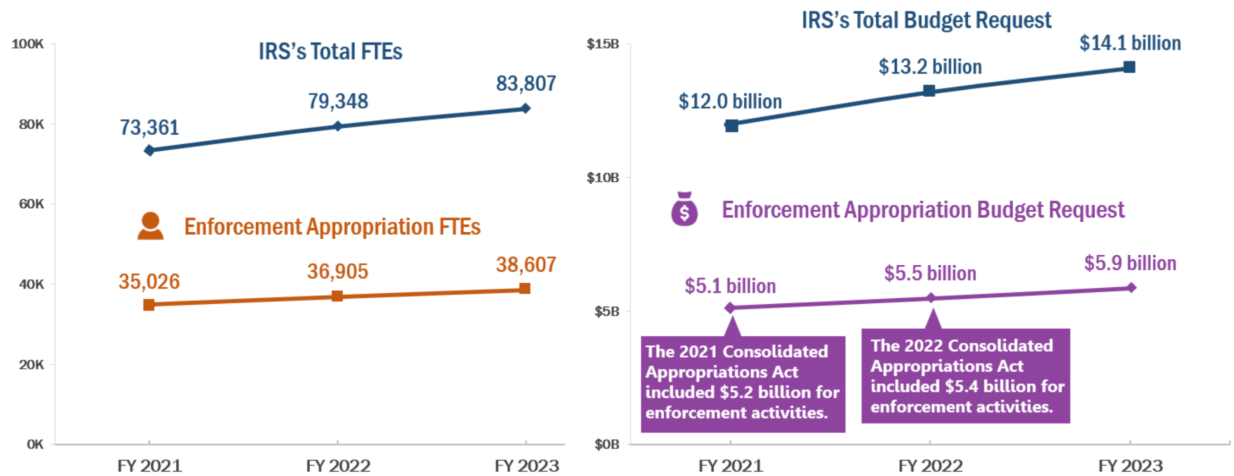
[1] A measure of labor hours in which one FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.

[2] The gross Tax Gap is the difference between a taxpayer's true tax liability and the tax paid voluntarily and timely. It is comprised of nonfiling, underreporting, and underpayment categories. The net Tax Gap is what remains after enforcement and other late payments.

[3] Publication 1415, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2014–2016* (Rev. 10-2022).

2023.[4] Figure 1 illustrates the three most recent budget requests in terms of FTEs and dollars, comparing the total request to the portion of the request attributable to enforcement. For perspective, the text boxes include information on the funding for enforcement included in the FYs 2021 and 2022 appropriations acts.[5]

Figure 1: IRS Appropriations for FYs 2021 Through 2023



Source: The IRS's annual budget requests for FYs 2021 through 2023. Appropriations data from the Consolidated Appropriations Act, 2021, and the Consolidated Appropriations Act, 2022.

On May 19, 2021, in written testimony to the Subcommittee on Financial Services and General Government, the IRS Commissioner stated that the IRS needs additional resources to pursue tax evasion.[6] The IRS Commissioner also stated that the average investigation of GHW taxpayers are complex cases that are not easy to resolve; some cases take two years to complete and often require the IRS to commit substantial resources. The IRS's budget submission for FY 2022 specifically requested additional staff to conduct examinations of GHW taxpayers. In its budget submission, the IRS stated that the increase in budget for the GHW program would alleviate the 25 percent attrition that GHW offices have experienced over the past five years.

In July 2021, the committee report on the Financial Services and General Government Appropriations Bill, 2022, from the House of Representatives, Committee on Appropriations, requested that the Treasury Inspector General for Tax Administration (TIGTA) "review the IRS's strategy to recruit and train employees to conduct audits of high earners and large businesses that underreport income as well as to

[4] GHW taxpayers have assets or income in the tens of millions of dollars.

[5] Consolidated Appropriations Act, 2021, Pub. L. No. 116-260; Consolidated Appropriations Act, 2022, Pub. L. No. 117-103.

[6] Testimony of the Commissioner of Internal Revenue, Charles Rettig, *On IRS Operations*, Senate Appropriations Committee (May 19, 2021).

collect taxes from taxpayers who have the ability to pay their outstanding debts, while also protecting taxpayer rights in the course of its enforcement efforts." This report provides the preliminary results of TIGTA's review of the IRS's examination recruitment strategy. A separate report on the results of TIGTA's review of the IRS's examination training strategy will be issued later this fiscal year.

In August 2022, the Inflation Reduction Act of 2022 (IRA) was signed into law in August 2022, providing multiyear funding to the IRS through September 30, 2031.[7] This law provided the IRS with approximately $78.9 billion in additional funding, with $45.6 billion dedicated to enforcement activities. On May 19, 2021, in a written testimony to the Subcommittee on Financial Services and General Government, the IRS Commissioner stated that, among other operational directives, this appropriation will facilitate the IRS's hiring and training of auditors to focus on complex investigations of large businesses, partnerships, and GHW taxpayers. Further, IRS management stated that they are considering a general shift in the IRS's enforcement focus to large corporations and high-income earners.

Subsequent to the passage of the IRA, the Secretary of the Treasury issued a memorandum in August 2022 requiring the IRS to produce a Strategic Operating Plan detailing how these new resources will be spent in the categories of technology, service improvement, and personnel. This Strategic Operating Plan was issued on April 5, 2023. The memorandum also stated that the increase in enforcement funding will not result in increased chances of being audited for small businesses or households earning $400,000 per year or less.

Due to the significant increase in funding for enforcement activities provided by the IRA and the nine-year timeline during which the IRS can expend the money, this is the first in a series of reviews related to the IRS's enforcement hiring. This report presents a pre-IRA snapshot of IRS enforcement hiring efforts with emphasis on efforts to recruit employees to conduct audits of high earners and large businesses that underreport income as well as to collect taxes from taxpayers who have the ability to pay their outstanding debts.

Results of Review

The IRS Intends to Expand Its Hiring of Enforcement Employees Who Have Experience With High Earners and Large Businesses

The majority of enforcement employees who the IRS plans to hire to conduct audits of high earners and large businesses will work in the Large Business and International (LB&I) and the Small Business/Self-Employed (SB/SE) Divisions.[8] Hiring goals for future fiscal years depend on the funding available and increases in funding are not immediately translated into increased staffing. For example, the Consolidated Appropriations Act, 2022, was passed in March 2022, and in September 2022, the IRS was still in the process of hiring in response to the funding

[7] Pub. L. No. 117-169, 136 Stat. 1818.

[8] The LB&I Division serves C corporations, S corporations, and partnerships with assets equal to or greater than $10 million. The SB/SE Division serves small businesses and self-employed taxpayers with assets under $10 million.

increase in that bill. The additional $45.6 billion dedicated to enforcement activities in the IRA will provide the opportunity to increase hiring efforts.

Human Capital Office (HCO) management stated that they posted 448 job announcements between March and September 2022 for positions in the LB&I and SB/SE Divisions related to enforcement.[9] They have also held 219 recruitment efforts such as career fairs and virtual information sessions. This has resulted in onboarding 95 employees to fill enforcement positions, and IRS management stated most of this hiring was still in process as of September 2022. Both the LB&I and SB/SE Divisions' hiring goals expect new employees will start in FY 2023. The IRS's Strategic Operating Plan estimates that, through the end of FY 2024, there will be a total growth of approximately 20,000 employees funded by the IRA. Approximately 7,000 FTEs are planned for enforcement business units.

Currently, the HCO coordinates future hiring with the Office of the Deputy Commissioner for Services and Enforcement (DCSE), and each business unit uses a current year hiring plan to ensure it does not hire more than its budget will allow. Further, IRS management clarified that the definition of "high earners" varies across the filing population and is dependent upon context. The Office of the DCSE has stated that it is coordinating with LB&I and SB/SE Division management to update the multiple definitions of high earners into one definition that can include other factors, such as considering a taxpayer's total assets in addition to income levels.

Hiring plans specific to the SB/SE Division

The IRS is still in the process of hiring employees in the SB/SE Division to increase audit coverage of high earners. As of the end of September 2022, the IRS's hiring report showed that the total staffing for the SB/SE Division was at 89 percent of its authorized level, with approximately 20,000 employees on roll. With existing hiring actions and expected attrition, the SB/SE Division could hire approximately 2,300 positions without exceeding its authorized level.[10] The hiring report also showed that the SB/SE Division hired approximately 3,300 individuals in FY 2022. Approximately 850 of those hires were internally hired from other IRS business units (26 percent of FY 2022 hiring). The largest contributor of these internal hires was the Wage and Investment (W&I) Division, and the second largest contributor was the LB&I Division.[11]

The SB/SE Division's recruiting plans include both internal and external approaches. Internal hiring includes searching for qualified individuals who have shared their resumes on USAJobs and conducting "Lunch and Learn" recruiting events. External recruiting includes pursuing various avenues including virtual and in-person job fairs, posting announcements on various social media platforms, searching for qualified individuals who have shared their resumes on USAJobs, and working with other Federal agencies such as the Office of Personnel Management to post on their job announcement platforms.

---

[9] The HCO provides human capital strategies and tools for recruiting, hiring, developing, retaining, and transitioning a highly skilled and high-performing workforce to support IRS mission accomplishments.

[10] This does not include any additional hiring in the SB/SE Division that will eventually be needed as a result of the IRS's Strategic Operating Plan that was issued to the Secretary of the Treasury in April 2023.

[11] The W&I Division administers the tax laws governing individual wage earners by delivering customer service, toll-free telephone and face-to-face assistance, identity theft victim assistance, and tax return processing. It also provides compliance activities for these taxpayers.

The planned revenue agent and tax compliance officer hires from the FY 2022 funding are expected to start working in FY 2023.[12] Some of the planned revenue agent hires are recent college graduates, which the IRS expects will require additional time before they will be ready to complete the more complex examinations associated with high earners. A draft of the SB/SE Division's FY 2023 hiring goals includes additional revenue agent hires.

For the SB/SE Division, the primary filter used to identify high earners is a threshold based upon Total Positive Income (TPI).[13] In general, a taxpayer with a TPI of $200,000 or greater is considered a high earner, and the SB/SE Division is responsible for audits related to these taxpayers.[14] As of September 2022, SB/SE examinations by activity code showed that employees spent approximately 12 percent of examination time on taxpayers with TPIs greater than $200,000 but less than $1 million. An additional 11 percent of examination time was spent on taxpayers with TPIs greater than $1 million.

These percentages changed slightly throughout FY 2022, and the SB/SE Division's examination employee hiring goals through FY 2023 may change the allocation of the overall examination time. Specifically, the SB/SE Division plans to [redacted] its allocation of examination time to approximately [redacted] for taxpayers with TPIs greater than $1 million, but examination time for taxpayers with TPIs in the $200,000 to under $1 million range will [redacted] to [redacted] This will [redacted] the allocation of examination time for taxpayers with TPIs greater than $200,000 to [redacted] of the overall examination time [redacted]. Figure 2 shows for the SB/SE Division the number of examinations closed, dollars recommended per hour of examination, and total recommended dollars for FYs 2021 and 2022.[15]

The SB/SE Division plans to [redacted] the allocation of examination time to approximately [redacted] for taxpayers with TPIs greater than $1 million.

[12] Revenue agents plan and conduct onsite examinations and work regularly with taxpayers or their representatives on more complex examination issues. Tax compliance officers plan and conduct examinations that typically entail less complex examination issues.

[13] In general, TPI is the sum of all positive amounts shown for the various sources of income reported on an individual income tax return, and thus excludes losses.

[14] TIGTA has previously recommended that the IRS reevaluate the threshold of what constitutes high-income taxpayers. TIGTA, Report No. 2015-30-078, *Improvements Are Needed in Resource Allocation and Management Controls for Audits of High-Income Taxpayers,* p. 9 (Sept. 2015).

[15] Recommended dollars is the increase in the amount of tax due on a return as a result of an examination. Dollars recommended per hour of examination is the recommended dollars on returns closed divided by the number of hours applied to the examinations closed in a year.

Figure 2: SB/SE Division Examination Statistics

	Examination Classification by TPI					
	Less Than $200,000		$200,000 to Less Than $1 Million		Greater Than $1 Million	
	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022
Number of examinations closed	65,630	62,407	16,004	12,454	8,204	7,507
Dollars recommended per hour of examination	$745	$765	$933	$1,930	$1,810	$1,907
Total dollars recommended	$1.4 billion	$1.4 billion	$712 million	$1.2 billion	$930 million	$916 million

Source: IRS SB/SE Division management reports as of September 2022.

While the number of closed SB/SE Division examinations decreased between FYs 2021 and 2022, the dollars recommended per hour of examination during the same time period increased. Increasing the SB/SE Division's Examination function hiring and maintaining its rate of dollars recommended per examination would have a positive effect on the IRS's efforts to reduce the Tax Gap.

IRS efforts for the collection of taxes due is not tracked in as much detail as with examinations. The SB/SE Division's Field Collection function does not separately track collection activity related to taxpayers classified as high earners. Actual FY 2021 revenue officer FTEs in the SB/SE Division's Field Collection function were approximately 2,500, and in FY 2022, revenue officer FTEs were approximately 2,600.[16]

Hiring plans specific to the LB&I Division

A recent TIGTA report found that in FYs 2018 through 2020, the GHW program identified [redacted] due to staffing limitations.[17] Of these [redacted] returns [redacted], [redacted] had TPIs of over $100 million and over 360 days left on their statute of limitations for assessment.

The IRS is still in the process of hiring employees to increase audit coverage of large businesses and GHW taxpayers. As of September 2022, the IRS's hiring report showed that the staffing for the LB&I Division was at 90 percent of its authorized level, with approximately 4,600 employees on roll. With existing hiring actions and expected attrition, the LB&I Division could hire approximately 450 positions without exceeding its authorized level.[18] The hiring report also

[16] Revenue officers primarily focus on collecting delinquent tax accounts and securing delinquent tax returns. They also conduct research, interviews, investigations, and analyses of financial statements and third-party information.

[17] TIGTA, Report No. 2023-30-019, *The IRS Large Business and International Division Should Consider Shifting Individual Examination Resources to More Productive Examinations*, p. 7 (May 2023).

[18] This does not include any additional hiring in the LB&I Division that will eventually be needed as a result of the IRS's Strategic Operating Plan that was issued to the Secretary of the Treasury in April 2023.

showed that the LB&I Division hired approximately 300 individuals in FY 2022. Approximately 100 of those hires were internally hired from other IRS business units (33 percent of FY 2022 hiring). The largest contributor of these internal hires was the SB/SE Division, and the second largest contributor was the W&I Division.

Increased examination hiring is part of the LB&I Division's overall hiring plan. Its recruiting plans include acquiring higher-skilled talent through hiring websites, virtual open houses, and recruitment flyers directing applicants to job postings. Due to the more complicated nature of its work with large businesses and complex tax circumstances, LB&I Division management has targeted more professional organizations with applicants that have prior experience.

The IRS maintains a GHW program that considers not only a taxpayer's income tax return but also other entities under a taxpayer's control. This includes business and financial enterprises controlled by individuals with assets or income over $10 million.[19] LB&I Division management anticipates an increase to its examination staffing in FY 2023. Management expects to allocate a quarter of that increase to large businesses with assets exceeding [redacted], and approximately a third of that increase will be allocated to [redacted] examinations.

The LB&I Division anticipates an increase to examination staffing in FY 2023. A quarter of that increase is expected to be allocated to large businesses with assets exceeding [redacted], and approximately a third of that increase will be allocated to [redacted] examinations.

As of September 2022, LB&I Division examinations by activity code showed that approximately 32 percent of the examination time was spent on [redacted] with assets of [redacted] or greater.[20] The LB&I Division directed about half of that effort towards corporations with assets greater than [redacted]. There was little change throughout FY 2022 in these examination percentages, but LB&I Division management is planning for an increase in staffing for FY 2023.[21] Figure 3 shows for the LB&I Division the number of examinations closed, dollars recommended per hour of examination, and total recommended dollars for large businesses with assets of [redacted] or greater and [redacted].

[19] Generally, a large business is one with assets over $10 million.

[20] Examination time includes efforts spent examining tax returns and non-return examination time. Non-return examination time includes various activities such as pricing agreements, promoter investigations, or other direct time.

[21] The IRS's Strategic Operating Plan estimates funding for 1,543 FTEs for enforcement business units in FY 2023. However, specific FTE funding for the LB&I Division is not provided.

Figure 3: LB&I Division Examination Statistics

Examination Classification by TPI	Large Business with Assets Greater Than or Equal to [redacted]		[redacted]	
	FY 2021	FY 2022	FY 2021	FY 2022
Number of examinations closed	1,726	1,319	459	491
Dollars recommended per hour of examination	$10,366	$13,351	$3,848	$5,457
Total dollars recommended	$13.8 billion	$12.9 billion	$346 million	$418 million

Source: IRS LB&I Division management reports as of September 2022.

While the number of closed LB&I Division examinations decreased in the category of large business with assets greater than or equal to [redacted] between FYs 2021 and 2022, the dollars recommended per hour of examination during the same time period increased. Increasing the LB&I Division's Examination function hiring and maintaining its rate of dollars recommended per examination would have a positive effect on the IRS's efforts to reduce the Tax Gap.

In regards to the collection of assessed taxes resulting from examinations, LB&I Division management asserted that these assessments are paid without difficulty because these taxpayers have the resources to pay.

Employee Attrition Is Outpacing Some Enforcement Hiring Efforts

The LB&I and SB/SE Divisions have not been able to keep up with normal attrition and hiring of new employees to replace those who have left their business units.

The IRS has initiated planning efforts for hiring employees to conduct audits of high earners and large businesses; however, FY 2022 planning for hiring in the LB&I and SB/SE Divisions did not provide sufficient hiring of staff to address normal attrition. In February 2022, the Office of Personnel Management approved Direct-Hire Authority for a total of 10,000 employees for the W&I Division's Submission Processing and Accounts Management functions to assist in reducing the tax return filing backlog.[22] However, the large number of HCO resources devoted to this hiring surge prevented the LB&I and SB/SE Divisions from hiring more enforcement employees to increase audits of high earners and to replace employees lost through normal attrition. As a result, LB&I and SB/SE Division management have been unable to keep up with hiring new

[22] A Direct-Hire Authority is an appointing (hiring) authority that the Office of Personnel Management can give to Federal agencies for filling vacancies when a critical hiring need or severe shortage of candidates exists.

employees to replace those who have left their business units and will be unable to complete as many audits of high earners and large businesses as planned. When staffing increases are significantly delayed, the benefits of those increases are lost due to ongoing attrition. For example, a staffing increase of 400 employees planned for one year from today would not result in an overall increased benefit to tax administration when more than 400 employees are likely to separate from the IRS before that increase can begin.

An ineffective recruitment and hiring strategy could negatively impact the IRS's ability to increase audits of high earners and large businesses that underreport income. Ineffective planning can limit a business unit's capability to complete its mission. This in turn can reduce the likelihood that the IRS will accomplish its strategic goals. One of those goals is to enforce the tax law fairly and efficiently to increase voluntary compliance and narrow the Tax Gap. Due to the nature of appropriations planning, if a business unit does not identify a need for additional enforcement staffing before the IRS completes its annual budget justification, that need will not be communicated to Congress until the next fiscal year. The same scenario would happen if the business unit does identify the need but does not timely or effectively communicate the need to the HCO and the Office of the DCSE when preparing the IRS's top-level hiring plan.

Additionally, significant internal hiring can reduce the ability of other IRS business units to accomplish their objectives when they lose employees in a hiring surge. For example, if the IRS requested to hire 2,500 additional enforcement FTEs and follows the SB/SE Division's pace with a 26 percent internal hiring rate, then 650 existing IRS employees would fill these new positions. The positions that those employees vacated would then remain vacant until they are back-filled. Any work responsibilities for the previous position would fall on that team or, in a worst-case scenario, would go uncompleted until the vacated position is subsequently filled. When a general hiring delay due to a hiring surge in another business unit occurs, this increases the amount of time it will take to fill vacated positions in the other business units. This increased amount of time a vacated position is left open compounds the impact to the losing business unit's operations. HCO management stated that they have taken various actions to reduce the impact of the W&I Division's hiring surge. These actions include using contractors and other Federal agencies to review applicant qualification information and process background investigations.

In addition, the IRS may not have had the HCO capacity needed because of all of the years of hiring freezes, which resulted in limited hiring. IRS management indicated they are considering other actions to reduce the time necessary to hire an employee and to improve their hiring capacity. These actions include enhancements to the computer systems involved in the hiring process to reduce manual input of information and to streamline the hiring process. These enhancements are anticipated to help improve information flow as well as reduce the amount of manual work necessary in the hiring process.

The DCSE should coordinate with the Deputy Commissioner for Operations Support (DCOS) to:

Recommendation 1: Establish a plan to effectively manage changes in hiring volume. This plan should effectively manage those changes, including backfilling positions vacated from internal transfers, so that it does not adversely affect, to the extent practicable, the regular hiring in other IRS business units.

Management's Response: The IRS agreed with the recommendation. The DCSE and the DCOS carefully coordinated the yearly hiring plan for FY 2023. This coordination resulted in a FY 2023 Hiring Demand Plan. Over the course of the last year, the HCO has begun the process of increasing staffing and other resources to increase hiring capacity to enable the IRS to process all hiring as it is requested by IRS business units. FY 2024 hiring planning is currently underway and is being similarly coordinated between the DCSE and the DCOS.

Recommendation 2: Improve communication channels across business units to mitigate the effects of large hiring surges. Specifically, the IRS should establish dedicated communication lines throughout the business units to ensure adequate prioritization and communication of hiring needs.

Management's Response: The IRS agreed with the recommendation. The DCSE and DCOS have improved the communication channels across business units, beginning at the planning phase and then ongoing throughout the year to share information relative to hiring needs. This includes a new Tactical Operations Center for hiring progress, monthly meetings with all business-based human resources teams, and bi-monthly Human Capital Advisory Committee and Human Capital Board meetings where all business units engage on topics including hiring needs.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to evaluate the IRS's strategy to recruit employees to conduct audits of high earners and large businesses that underreport income as well as to collect taxes from taxpayers who have the ability to pay their outstanding debts. To accomplish our objective, we:

- Interviewed HCO, LB&I, and SB/SE management and obtained any relevant documentation to assess the planning and preparation by IRS business units for the enforcement recruiting and hiring initiative. Specifically:
    - Identified current staffing levels for employees assigned to conduct audits of high earners and large businesses that underreport income.
    - Reviewed documentation supporting the enforcement employee hiring funding requests.
    - Identified the planned strategy for recruiting enforcement employees as part of the hiring initiative.
    - Identified any planned future hiring for Collection function employees to address collection of additional tax assessed as a result of increased examinations.
- Identified the planned level of enforcement employee staffing for FYs 2022 and 2023.
- Assessed the HCO, LB&I, and SB/SE plans to maintain these staffing levels in FY 2023 and beyond.
- Assessed the IRS's plan for allocating the hiring of enforcement employees among the business units and the plan for monitoring progress in achieving its hiring goals.

Performance of This Review

This review was performed with information obtained from the Office of the DCSE, the HCO, the LB&I Division, and the SB/SE Division, all located in Washington, D.C., during the period May 2022 through January 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 P. George, Director; Brian Foltz, Acting Director; Seth Siegel, Audit Manager; Nathaniel Russell, Lead Auditor; and Jody-Ann Sommerville, Auditor.

Validity and Reliability of Data From Computer-Based Systems

We performed tests to assess the reliability of select data from the *LB&I Key Stats Report*, the *SB/SE FTE Report*, and the *HCO Authorized Staffing Plan Dashboard*.[1] We evaluated the data by 1) performing electronic testing of required data elements, 2) reviewing existing information about the data and the system that produced them, and 3) interviewing agency 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: IRS management reports designed to monitor the status of staffing counts and provide management with relevant information for adequate future planning. To assess these controls, we reviewed these reports as of various dates to evaluate whether management planning and monitoring is sufficient to respond to hiring surges. We also interviewed subject matter experts on these reports and read relevant sections of the Internal Revenue Manual on hiring planning.[2]

[1] The *LB&I Key Statistics Report* dates covered September 2021, March 2022, May 2022, and September 2022. The *SB/SE FTE Report* dates covered September 2021, March 2022, April 2022, and September 2022. The *HCO Authorized Staffing Plan Dashboard* dates covered July 2022, August 2022, and September 2022.

[2] The Internal Revenue Manual is the 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.

Appendix II

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

DEPUTY COMMISSIONER

April 17, 2023

MEMORANDUM FOR HEATHER M. HILL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Douglas W. O'Donnell Douglas W. Odonnell Digitally signed by Douglas W. Odonnell Date: 2023.04.17 15:25:14 -04'00'
Deputy Commissioner for Services and Enforcement

SUBJECT: Draft Audit Report # 202210035, "Planning Efforts to Hire Employees That Conduct Audits of High Earners and Large Businesses Could Be Improved"

Thank you for the opportunity to respond to the above-referenced report.

The IRS agrees that recruitment and hiring is foundational to its ability to provide taxpayers with quality service and fair enforcement. As you note in your report, the IRS's Enforcement function has seen a thirty percent decrease in its full-time equivalent staffing from FY2010 through FY2021. Inevitably, this decrease in enforcement staff has challenged the IRS's ability to ensure full compliance with our nation's tax laws. Additionally, with substantial portions of the employees lost to attrition being at the most senior levels, we are losing those employees that are best equipped with the skills and experience necessary to focus on high earners and large businesses and to train and mentor newer and less experienced employees.

Concurrently, IRS's 2021-2022 focus on inventory reduction prioritized hiring for return processing and customer service, leaving less hiring capacity for compliance positions in FY22. However, the IRS has since increased hiring capacity, developed a new calculator to aid in measuring hiring capacity, and acquired supplemental contractor support to move from a capacity-management to demand-driven hiring model, in which HCO is equipped to process all hires identified by IRS business units.

Additionally, with the passage of the Inflation Reduction Act (IRA) last year, the IRS sees tremendous opportunities to dramatically increase enforcement hiring in the coming years. In accordance with the directive from Secretary Yellen, these hiring efforts will be aimed to position the IRS to focus on the most sophisticated and challenging work, with no increase to audit rates relative to historic norms for individuals and small businesses earning $400,000 or less. The IRS worked diligently to craft a Strategic Operating Plan and stand up a Transformation & Strategy Office to manage IRA implementation. The IRA Strategic Operating Plan includes in it's focus a robust suite of hiring initiatives, including hiring within the IRS's compliance functions, with the goal of attracting, retaining and empowering a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers.

Attached is our response to your recommendations. If you have any questions, please contact me, or members of your staff may contact Carollynn Lear, Senior Advisor to the Deputy Commissioner, Services & Enforcement (Carollynn.J.Lear@IRS.gov).

Attachment

3

Attachment

RECOMMENDATION 1: The Deputy Commissioner, Services & Enforcement should coordinate with the Deputy Commissioner for Operations Support to establish a plan to effectively manage changes to hiring volume. This plan should effectively manage those changes, including backfilling positions vacated from internal transfers, so that it does not adversely affect, to the extent practicable, the regular hiring in other IRS business units.

CORRECTIVE ACTION: The Deputy Commissioner, Services & Enforcement (DCSE) and the Deputy Commissioner for Operations Support (DCOS) carefully coordinated the yearly hiring plan for FY23. This coordination resulted in a FY23 Hiring Demand Plan. Over the course of the last year, HCO has begun the process of increasing staffing and other resources to increase hiring capacity to enable the IRS to process all hiring as it is requested by IRS business units. FY24 hiring planning is currently underway and is being similarly coordinated between the DCSE and the DCOS.

RESPONSIBLE OFFICIAL: Deputy Commissioner, Services & Enforcement; Chief Human Capital Officer

IMPLEMENTATION DATE: Completed

CORRECTIVE ACTION MONITORING PLAN: N/A

RECOMMENDATION 2: The Deputy Commissioner, Services & Enforcement should coordinate with the Deputy Commissioner for Operations Support to improve communication channels across business units to mitigate the effects of large hiring surges. Specifically, the IRS should establish dedicated communication lines throughout the business units to ensure adequate prioritization and communication of hiring needs.

CORRECTIVE ACTION: The DCSE and DCOS have improved the communication channels across business units, beginning at the planning phase and then on-going throughout the year to share information relative to hiring needs. This includes a new Tactical Operations Center for hiring progress, regular touchpoints at the tier 1, 2, and 3 executive levels, monthly meetings with all business-based human resources teams, and bi-monthly Human Capital Advisory Committee and Human Capital Board meetings where all business units engage on topics including hiring needs

RESPONSIBLE OFFICIALS: Deputy Commissioner, Services & Enforcement; Chief Human Capital Officer

IMPLEMENTATION DATE: Completed

CORRECTIVE ACTION MONITORING PLAN: N/A

Appendix III

Abbreviations

DCOS	Deputy Commissioner for Operations Support
DCSE	Deputy Commissioner for Services and Enforcement
FTE	Full-Time Equivalent
FY	Fiscal Year
GHW	Global High-Wealth
HCO	Human Capital Office
IRA	Inflation Reduction Act of 2022
IRS	Internal Revenue Service
LB&I	Large Business and International
SB/SE	Small Business/Self-Employed
TIGTA	Treasury Inspector General for Tax Administration
TPI	Total Positive Income
W&I	Wage and Investment

To report fraud, waste, or abuse,
contact our hotline on the web at www.tigta.gov or via e-mail at oi.govreports@tigta.treas.gov.

To make suggestions to improve IRS policies, processes, or systems affecting taxpayers, contact us at www.tigta.gov/form/suggestions.

Information you provide is confidential, and you may remain anonymous.