

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



The IRS Eliminated Its Employee Suggestion Program Without Plans for a Replacement

March 29, 2023

Report Number: 2023-30-020

Why TIGTA Did This Audit

This audit was initiated because the IRS eliminated its Employee Suggestion Program (ESP) without plans to replace it, which may have been premature. The overall objective of this audit was to review the effectiveness of the IRS ESP for Fiscal Years 2018 through 2021, including the benefits, costs, employee engagement, and taxpayer service improvements resulting from the program, and to evaluate whether the termination of the program as of October 1, 2021, was appropriate.

Impact on Tax Administration

Given the varied scope of what IRS employees do while performing their jobs suggests the need for an effective and efficient Service-wide employee feedback program allowing employees to submit their ideas or suggestions. Having an employee suggestion program is a tool to promote employee engagement, improve employee morale, and in the long term, retain an adequate workforce to meet IRS workload demands.

A Harvard Business Review study found most surveyed leaders rank employee engagement as very important to achieving overall organizational success. However, 76 percent of the leaders surveyed said most employees in their organization are not highly engaged. In the Fiscal Year 2022 Federal Employee Viewpoint Survey report, only 63 percent of IRS employees felt encouraged to come up with new ideas and only 52 percent felt that the IRS was committed to providing the necessary resources to develop new ideas.

What TIGTA Found

Employee engagement is the extent to which employers listen and respond to employees' concerns and ideas as well as the degree to which employees derive motivation, commitment, and involvement towards execution of the organization's mission. IRS managers and executives should have a forum for employees to communicate their ideas and concerns and must have the willingness to listen to and engage with their employees.

On October 1, 2021, the IRS eliminated its ESP without a plan or expressed intent to replace it. The IRS stated that the reason was due to the high ESP administrative costs compared to the benefits received and the significant rate of rejection of employee suggestions. By far, the highest costs of the program were 207 ESP coordinators, who were not subject matter experts and whose role was administrative in nature. TIGTA found that administrative costs seemed excessive in that, of the 2,824 employee suggestions which made it through initial screening, the coordinators spent on average 31 hours per suggestion.

Some IRS business units have employee engagement forums; however, they are not effective substitutes for the ESP in that they do not allow employees to submit their ideas or suggestions and to receive rewards for suggestions that are adopted.

From Fiscal Year 2018 through Fiscal Year 2021, IRS employees submitted 3,638 total suggestions with an over 2 percent adoption rate. TIGTA reviewed a sample of 40 rejected suggestions and determined that 34 of 40 suggestions were not properly evaluated. Within the same 40 suggestions, 18 were returned to the submitter due to the failure to include the estimated cost savings calculations, which was not a required criterion for a suggestion to be accepted. Program administrators lacked the training and expertise necessary to successfully conduct their job, which contributed to the ineffectiveness of the program. Additionally, the program lacked the support from leadership of the IRS business units in various respects.

What TIGTA Recommended

TIGTA recommended that the IRS should: 1) contact comparable Federal agencies with the highest levels of engagement and employee satisfaction for ESP best practices; and 2) using information from Recommendation 1, as well as employee survey data, develop options for a new Service-wide employee feedback process to support the agency's transformation efforts under the Inflation Reduction Act. IRS management agreed with both recommendations.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

March 29, 2023

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

Heather Hill

FROM: Heather M. Hill
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The IRS Eliminated Its Employee Suggestion Program Without Plans for a Replacement (Audit # 202230039)

This report presents the results of our review of the effectiveness of the Internal Revenue Service's (IRS) Employee Suggestion Program for Fiscal Years 2018 through 2021, including the benefits, costs, employee engagement, and taxpayer service improvements resulting from the program, and to evaluate whether the termination of the program as of October 1, 2021, was appropriate. This review is part of our Fiscal Year 2023 Annual Audit Plan and is noted as a significant concern in our Fiscal Year 2023 Top Management Challenges report under *Human Capital*, which affects the ability of the IRS to address the IRS's top management and performance challenges.

Management's complete response to the draft report is included as Appendix III. If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

Table of Contents

| | |
|---|---------|
| <u>Background</u> | Page 1 |
| <u>Results of Review</u> | Page 7 |
| <u>The Employee Suggestion Program, While Not Operating As Intended, Was Eliminated Before Implementing a Replacement</u> | Page 7 |
| <u>The IRS Employee Engagement Plan Lacks a Service-Wide Employee Feedback Program</u> | Page 12 |
| <u>Recommendations 1 and 2:</u> | Page 16 |
| Appendices | |
| <u>Appendix I – Detailed Objective, Scope, and Methodology</u> | Page 17 |
| <u>Appendix II – Suggestions Not Eligible for Consideration</u> | Page 19 |
| <u>Appendix III – Management’s Response to the Draft Report</u> | Page 20 |
| <u>Appendix IV – Glossary of Terms</u> | Page 23 |
| <u>Appendix V – Abbreviations</u> | Page.24 |

Background

Employee engagement is the extent to which employers listen and respond to employees' concerns and ideas as well as the degree to which employees derive motivation, commitment, and involvement towards the execution of the organization's mission.¹ Fostering employee engagement is an important responsibility of Internal Revenue Service (IRS) managers and executives. IRS managers and executives need a forum for employees to communicate their ideas and concerns and must have the willingness to listen to and engage with their employees.

In our interviews with IRS executives, they emphasized the importance of having employees come forward and managers listening to their employees as an example of effective employee engagement. One of the executives interviewed for this report explained that one of the most powerful learning experiences provided in the IRS's Executive Readiness class was the Space Shuttle's Disaster Program Case Study (wherein employees are placed in a similar scenario-based situation as the real-life whistleblower in the Space Shuttle Challenger Disaster incident who was not listened to regarding his belief that conditions for the Challenger were unsafe for launch on January 28, 1986), in which the class emphasized the concept of listening to front-line workers.² The class featured the actual whistleblower as a speaker who had in 1986 tried to convince the National Aeronautics and Space Administration of the dangers of a launch given the weather conditions. When reflecting on the impact of the Space Shuttle Challenger Disaster Case Study on his understanding of the importance of listening and the actual state of the IRS today, the executive stated:

The IRS as a whole should do a better job at listening to what our frontline employees are saying and telling us so that we can make changes to improve efficiency.³

A report by Harvard Business Review Analytic Services found that most surveyed leaders rank employee engagement as very important to achieving overall organizational success. However, 76 percent of those surveyed said most employees in their organizations are not highly engaged.⁴

The IRS started to establish annual Leadership Engagement Action Plans (LEAP) in Fiscal Year (FY) 2015 to provide tools, tips, and best practices that all business units could use in their engagement endeavors. To strengthen employee engagement, IRS leadership is encouraged to follow the Four Pillars of Engagement, which are behaviors to incorporate into all leadership interactions. Figure 1 shows the IRS Four Pillars of Engagement.

¹ While the IRS does not have a single definition for employee engagement, it is embedded in numerous IRS procedures and guidelines, such as the Taxpayer Advocate Service: Internal Revenue Manual (IRM) 13.5.1.2, *Taxpayer Advocate Service Employee Satisfaction Measure* (Sept. 5, 2019); IRM 1.5.1, *Managing Statistics in a Balanced Measurement System: The IRS Balanced Performance Measurement System* (July 13, 2021); and Performance Management for Managers (Sept. 2006).

² The Space Shuttle Challenger Disaster Case Study was a part of the IRS Executive Readiness course in part to focus future IRS executives on the need to assess organizational risks and listen to employees.

³ Interviewee requested to remain anonymous.

⁴ Harvard Business Review, *The Impact of Employee Engagement on Performance* (June 1, 2013). A total of 568 respondents completed the survey. All were from organizations with 500 or more employees; more than 42 percent of respondents were from organizations of 10,000 or more employees.

Figure 1: IRS Pillars of Engagement

| Pillars | Description |
|----------------|--|
| Listen | Foster an inclusive culture in which all employees feel valued, respected and ideas are heard. |
| Develop | Promote career progression and rotation opportunities that share knowledge, retain talent, accelerate advancement of top performers, and build future leaders. |
| Lead | Ensure managers are trained and equipped to effectively lead, manage, and engage diverse teams. |
| Support | Assist employees in quickly resolving issues by providing them with the resources and tools needed to provide exemplary customer service. |

Source: IRS FY 2022–2025 Corporate Leadership Engagement Action Plan, Human Capital Office (Oct 1, 2021).

Recognizing the challenges taxpayers face in complying with the tax laws, Congress signed into law the Taxpayer First Act, on July 1, 2019.⁵ The IRS issued the Taxpayer First Act Report to Congress on January 2021, setting the stage for IRS’s vision of implementing the taxpayer and employee experience as mandated by the Act.⁶ In the report, the IRS spoke of the importance of listening to the taxpayer as well as to its employees.

While the IRS established the Employee Suggestion Program (ESP) in FY 2003, it is in line with LEAP’s pillars of engagement starting with listening and then developing, leading, and supporting.⁷ Through the ESP, the IRS recognized and compensated employees for ideas that improved agency processes.⁸

The IRS is a unique Government agency in both its size and responsibilities. According to the IRS, as of January 2023, the IRS employed 85,230 employees, including professionals, paraprofessionals, administrative workers, and clerks. The IRS is tasked with providing taxpayer service, processing over 150 million individual and business income tax returns annually, examining income tax returns, collecting delinquent income taxes, delivering economic and social programs provided for in the Internal Revenue Code, and enforcing the Code’s criminal tax law provisions.⁹ Given the varied scope of what IRS employees do while performing their jobs, an employee suggestion plan is needed to ensure that IRS employees are engaged, that the IRS operates efficiently and effectively, and that taxpayer rights are protected.

The ESP was based on the following fundamental concepts:¹⁰

⁵ Pub. L. No. 116-25, 133 Stat. 981 (codified in scattered sections of 26 U.S.C.).

⁶ Publication 5426, *Taxpayer First Act Report to Congress* (Jan. 2021).

⁷ The IRS and National Treasury Employee Union Agreement concerning the ESP was signed on March 14, 2001; however, the ESP Database was implemented in June 2003.

⁸ Interim Guidance Memorandum HCO-06-0821-0017 was issued in IRM 6.451.1.14 (revised 2019) until the IRM is revised and updated. This guidance will expire October 1, 2023.

⁹ The income tax returns processed figure was as of April 22, 2022. Wage and Investment Division, Business Performance Review, 2nd Quarter (2022).

¹⁰ ESP Training Guide (page 5, revised Apr. 2003) and the ESP Business/Operating Division Program Training Guide Handbook (page 4, revised Dec. 2006).

The IRS Eliminated Its Employee Suggestion Program Without Plans for a Replacement

- The individual closest to the job is in the best position to recommend improvements for the particular function, process, or operation.
- No one employee, supervisor, or manager has all of the good ideas in any organization.
- The suggestion program has proven itself cost effective.
- Management must effectively administer the program to ensure that maximum benefit is derived.

According to the IRS, it eliminated the ESP effective October 1, 2021, due to the administrative cost versus benefits and the significant rejection rates of employee suggestions. Prior to being eliminated, the ESP was operated and maintained by the IRS Human Capital Office (HCO) under the Work Life, Benefits, and Performance Division (hereafter referred to as HCO). Monetary awards for employee suggestions were based on the adoption of employee suggestions that improved the efficiency or effectiveness of IRS operations. The HCO promoted the ESP through several means, including brochures and various website postings separate from the IRS's other employee engagement tools.¹¹

For an employee suggestion to be considered, it had to contain the following basic elements and not fall under the exclusions criteria:

- Statement of the problem.
- Proposed solution.
- Benefits of the proposed solution.¹²

The ESP's benefits were defined by its parameters as tangible and intangible. Tangible benefits were improvements that could be defined in monetary amounts, while intangible benefits were improvements not easily defined in terms of monetary amounts. Examples of tangible benefits would include reduced labor hours, rental costs, or equipment costs. Intangible benefit examples include improved employee morale, decreased employee turnover, and reduction of taxpayer burden.

Employee suggestions that did not contain the three required elements would have been returned to the employee who would then have 30 calendar days to address the three required elements and resubmit the suggestion for consideration. If the employee did not return the suggestion within 30 calendar days, the suggestion was rejected. If the employee resubmitted the suggestion and it still did not contain all three required elements, it was rejected.

Figure 2 illustrates the ESP processing requirements per arbitration agreement with the National Treasury Employee Union (NTEU).

¹¹ The IRS has four engagement themes: Communication, Motivation, Diversity and Inclusion, and Recognition and Empowerment.

¹² ESP Desk Guide (Oct. 2017). The estimated savings for tangible employee suggestions were optional. See Appendix II for suggestions not eligible for consideration.

Figure 2: The Employee Suggestion Program Processing Requirements

| ESP Processing Requirements | |
|------------------------------------|--|
| 1. | The employee submits a suggestion in the ESP online system. The suggestion describes a specific need for improvement or proposes a specific improvement to an existing situation. |
| 2. | The ESP coordinator conducts an initial review of the incoming suggestion to determine if the suggestion meets the basic elements and does not fall under the exclusions criteria before forwarding the suggestion to an evaluator for further review. The ESP coordinator has 10 days after receipt of a submitted suggestion to send an acknowledgement letter or e-mail to acknowledge receipt of the submitted suggestion. A suggestion is accepted for processing through the program when a coordinator determines that the suggestion is appropriate for consideration. |
| 3. | The ESP evaluator reviews the incoming suggestion from the coordinator, identifies and analyzes the costs and benefits, determines if the suggestion is capable of implementation, and if so, recommends an award. The ESP evaluator must complete the evaluation of the suggestion within 30 days from the date the suggestion is received. Per the NTEU agreement, employee suggestions were to be fully processed within 75 days from the date of receipt. Any suggestions over 75 days were considered over-aged. |
| 4. | If the ESP evaluator adopted a suggestion, the employee would receive a monetary award; if not, the employee would be provided with a written explanation of the reasons for nonadoption. |

Source: Treasury Inspector General for Tax Administration’s analysis of the ESP process provided by the HCO under the 2001 NTEU agreement.

IRS executive leadership made the decision to shut down the ESP, citing its costs versus benefits and the significant rejection rates. Figures 3 and 4 were prepared by the IRS’s HCO Executive Leadership and presented to the IRS Commissioner in March 2021, in support of IRS leadership’s decision to shut down the ESP. These two figures outline the IRS analysis of the savings and awards as well as the administrative costs of operating the ESP from FYs 2017 through 2021.

Figure 3: Savings and Awards for FYs 2017 Through 2021¹³

| Fiscal Year | Total Submitted | Total Non-Adopt | Total Not Acceptable | Total Adopted | Tangible Award | Intangible Award | Total Awards | First Year Net Tangible Savings |
|-------------|-----------------|-----------------|----------------------|---------------|----------------|------------------|--------------|---------------------------------|
| 2017 | 1,420 | 129 | 560 | 47 | \$24,795 | \$15,240 | \$40,035 | \$99,162 |
| 2018 | 1,134 | 232 | 423 | 50 | \$4,565 | \$26,052 | \$30,617 | \$18,260 |
| 2019 | 962 | 280 | 363 | 21 | \$3,024 | \$6,222 | \$9,246 | \$12,115 |
| 2020 | 882 | 295 | 382 | 36 | \$24,210 | \$15,300 | \$39,510 | \$30,160 |
| 2021 | 274 | 63 | 120 | 8 | \$16,275 | \$2,400 | \$18,675 | \$65,100 |
| Total | 4,672 | 999 | 1,848 | 162 | \$72,869 | \$65,214 | \$138,083 | \$224,797 |

Source: IRS Employee Suggestion Program Decision Briefing Dated March 19, 2021.

¹³ According to the IRS, the Total Submitted column for submitted suggestions does not reconcile to the totals from the Total Non-Adopt, Total Not Acceptable, and Total Adopted columns because the Total Submitted column was a stand-alone column and the other columns were either a running total or fiscal year only totals.

The IRS Eliminated Its Employee Suggestion Program Without Plans for a Replacement

Figure 3 shows award information and estimated cost savings from employee suggestions submitted to the ESP from FYs 2017 through 2021. The First Year Net Tangible Savings column illustrates the estimated savings in the first year an adopted suggestion was implemented. Given that intangible awards are improvements that may not be easily calculated but improve operations, the intangible awards were calculated based on the level of impact to operations.¹⁴

Figure 4 displays the costs of operating the ESP, which includes the number of employees, average General Service level, hours worked per year, hourly employee compensation rate, estimated annual cost, and projected five-year cost.

Figure 4: ESP Administrative Estimated Costs for FYs 2017 Through 2021

| ESP Administrative Costs (salary) | Number of Employees | Average Grade | Hours Per Year | Hourly Rate | Estimated Annual Cost | Estimated Five-Year Cost |
|---|---------------------|---------------|----------------|-------------|-----------------------|--------------------------|
| Service-Wide and SB/SE Program Managers | 2 | 14 | 2,087 | \$59 | \$246,809 | \$1,234,043 |
| Business Unit Program Managers-Primary | 17 | 13 | 313 | \$50 | \$266,305 | \$1,331,527 |
| Business Unit Program Manager-Backup | 12 | 11 | 104 | \$35 | \$43,965 | \$219,824 |
| Business Unit Coordinators | 207 | 12 | 417 | \$42 | \$3,635,788 | \$18,178,939 |
| Total | 238 | N/A | N/A | N/A | \$4,192,867 | \$20,964,333 |

Source: IRS Employee Suggestion Program Decision Briefing Dated March 19, 2021. SB/SE = Small Business/Self-Employed.

Figure 4 shows that the cost to operate the program was nearly \$4.2 million, with five-year costs of over \$20.9 million, while according to Figure 3, the first year net tangible savings from FYs 2017 through 2021 were \$224,797. Overall, the operating cost of the ESP was substantially greater than the cost savings. Further, ESP personnel did not track evaluators' time and, therefore, did not account for their labor costs in Figure 4. ESP evaluators were the subject matter experts in their applicable functional area. They evaluated incoming suggestions accepted by the ESP coordinators and determined whether to adopt or not adopt suggestions for implementation and award.

The HCO organization reports noted that only 3.5 percent (162) of total suggestions (4,672) were adopted over the five-fiscal-year period. Figure 5 describes the operating divisions' ESP administrators' roles and responsibilities in the ESP evaluation process.

¹⁴ IRS Form 9127, *Recommendation for Recognition*.

Figure 5: Employee Suggestion Program Roles and Responsibilities

| ESP Roles and Responsibilities |
|--|
| <p>HCO Service-Wide ESP Program Manager</p> <p>Charged with providing Service-wide ESP guidance, offering advice to the operating divisions, managing the ESP system, providing weekly and monthly reports, and administering the Service-wide suggestion award budget.</p> |
| <p>Business Unit ESP Program Manager</p> <p>Responsible for overseeing and administering the ESP for their respective business unit and ensuring that suggestions were evaluated and processed timely.</p> |
| <p>Business Unit ESP Coordinator</p> <p>Primarily responsible for conducting the initial review of a suggestion to be accepted based upon basic elements and exclusions criteria and assigning suggestions to the appropriate evaluator. Other duties include updating and sending acknowledgement letters to the submitters, preparing closure packages to submitters, and preparing closing actions on the ESP website.</p> |
| <p>Business Unit ESP Evaluator</p> <p>The subject matter expert responsible for evaluating the submitted suggestion to determine savings and benefits and whether the suggestion can be adopted. Other duties include preparing adoption or nonadoption letters to submitters, finalizing and inputting award information, and completing implementation tracking information for adopted suggestions.</p> |

Source: *ESP Desk Guide*.

At the end of the IRS and NTEU contract negotiations on the 2022 National Agreement, the IRS representatives raised the issue of shutting down the ESP. The NTEU representatives did not object to shutting down the ESP. Accordingly, the IRS removed references to the ESP in the 2022 National Agreement, Article 18, under Section 3, *Other Awards*. IRS representatives (according to an NTEU negotiator we interviewed) stated that the IRS would submit a proposal for a replacement to the NTEU by the end of FY 2022. IRS management, however, told us they did not make such a commitment to the NTEU. IRS management stated that they were committed to considering a replacement program outside the context of term bargaining. There was no commitment written into the contract for the IRS to replace the ESP and, as of December 2022, the IRS has not developed any proposals to replace the ESP.

The new 2022 National Agreement did include a larger award pool for Special Act Awards as a result of eliminating the ESP. Per our interviews with IRS executive leadership, monetary awards pertaining to suggestion ideas from the employees will be considered only as part of the Special Act Awards. However, we could not find any information on the IRS's intranet site or any guidance explaining to employees that employee suggestions would be compensated by Special Act Awards.

Results of Review

The Employee Suggestion Program, While Not Operating As Intended, Was Eliminated Before Implementing a Replacement

The ESP was based in part on the fundamental concept that it would prove itself cost effective, while management needed to effectively administer the program for maximum benefit. Our review found that, before it was shut down, the ESP was not cost effective nor administered effectively. Specifically, we found that:

- ESP costs exceeded awards and savings.
- Employee suggestions were not all addressed timely, while few were adopted.
- The ESP evaluation process policies were not clear and were applied inconsistently.
- ESP administrators and users lacked training and expertise.

IRS leadership acknowledged difficulties with the ESP due to its cost and programming limitations and concluded it was not sustainable to continue operating the ESP. IRS leadership and the IRS Commissioner were briefed on the cost and benefit analysis of the ESP in March 2021. The analysis included a recommendation to end the ESP on October 1, 2021. The briefing also stated that there were other alternatives already in use that performed a similar function as the ESP, which included:

- An Idea Wall.
- Special Act Awards and Manager's Awards.

We determined that these alternatives do not serve the same function as the ESP. The Idea Wall was established by the HCO Engagement and Retention office on August 3, 2020, and was intended to be a Service-wide program engagement tool.¹⁵ However, the Idea Wall program has not been regularly maintained and has been inactive since August 2021. When it was active, the Idea Wall was not Service-wide as the Small Business/Self-Employed (SB/SE) Division, Wage and Investment Division, and Criminal Investigation did not participate in the program. The Idea Wall was limited to work group suggestions and improving the processes of that work group. Adopted ideas from the Idea Wall can be recognized as a Special Act or Manager's Award subject to the manager's discretion. We found no information indicating employees were notified of this fact.

ESP costs exceeded awards and savings

The IRS asserts that it incurred significant costs in running the ESP. As previously reported, the IRS estimates that it cost nearly \$21 million to run the ESP for the five years ending FY 2021. The overwhelming majority of the \$21 million pertained to the ESP business unit coordinators, who were not subject matter experts and whose role was generally administrative in nature. As shown in Figure 4, 207 business unit coordinators cost over \$18 million. ESP business unit

¹⁵ The Idea Wall program was a recommendation by the Office of Personnel Management public policy cohort team as a way to enhance employee engagement and empower employees.

coordinators conducted the initial review of suggestions and identified subject matter experts, if warranted. These coordinators were also responsible for managing the evaluation process so suggestions could be evaluated and closed out timely (75 calendar days from the date of submission by the employee). During this same five-year period, the ESP documented \$224,797 in tangible benefits and savings, which were reduced by \$138,083 in suggestion award payments. The net savings was \$86,714. Overall, the IRS asserts there was a significant negative return on the ESP for several years.

We questioned the IRS on the costs associated with the program and have concerns about the efficiency of the use of employees without subject matter expertise spending so much time on employee suggestions. The employees who submitted the suggestions were required to put forth threshold criteria (*i.e.*, statement of problem, proposed solution, and possible benefits), and 1,848 submissions were eliminated for failing to include the threshold criteria, leaving 2,824 submissions to be evaluated on merits over a five-year period, on average 14 submissions for each coordinator over five years (an average 2.73 submissions per year for each coordinator).

Per Figure 4, with 86,319 hours of time spent by the 207 coordinators, on average, they spent 31 hours per submission, even though their role as coordinator did not require them to individually analyze the submissions on their merits because they were not subject matter experts. When evaluating the costs of the ESP, the IRS should assess whether coordinators' time was efficiently spent. If the IRS is going to make decisions about eliminating the ESP based almost exclusively on costs related to coordinators, it should make some effort to control those costs.¹⁶

Additionally, if the ESP operates effectively, it will bring improvements to tax administration for which there may be no direct savings for the IRS. As the "ghost employer" employee suggestion subsequently discussed demonstrates, some employee suggestions may relate to the improvement of IRS compliance efforts, which will not have an impact on savings of IRS expenditures but will improve tax enforcement. Other employee suggestions may improve the protection of taxpayer rights but would also not have a savings of IRS expenditures.

Not all suggestions were addressed timely, and few were adopted

Initially, employee suggestions in the ESP inventory over 75 calendar days were considered over-aged inventory. In September 2020, the IRS and NTEU agreed to increase the number of days to 180 calendar days for a suggestion to be considered over-aged. From FYs 2018 through 2021, the over-aged inventory rate was 32 percent (1,162 of 3,638). While the 32 percent over-aged is slightly above the IRS goal of 30 percent, it indicates that nearly one-third of the suggestions were over-aged. We found the ESP business unit coordinators had often misrouted and mislabeled suggestions, which contributed to the employee suggestions becoming over-aged.

The ESP was an automated program in which employees would log in to submit suggestions. Upon submission, the ESP system automatically assigned a suggestion number to the suggestion. Even though the ESP was an automated program, it did not systemically track suggestions. We found that suggestions were tracked manually, which also contributed to

¹⁶ The costs provided by the IRS were estimates using the program manager's estimated grade. The costs related to time spent by business unit subject matter experts were not included in these estimates.

employee suggestions becoming over-aged. According to IRS HCO management, manual tracking was used as a work-around due to the ESP system being antiquated and not reliable.

We obtained an extract of the ESP database. We determined that, from FYs 2018 through 2021, IRS employees submitted 3,638 suggestions, of which only 90 were adopted.¹⁷ Accordingly, for this four-year period, the ESP adoption rate was over 2 percent (90 of 3,638). During this same four-year period, the ESP's rejection rate was over 52 percent (1,898 of 3,638) (rejection means that the suggestion failed the threshold requirements for a reviewable suggestion), while the nonadopted rate was 45 percent (1,624 of 3,638) (nonadoption means the suggestion was evaluated on the merits but was not adopted).

Our review identified numerous suggestions that required the Information Technology (IT) organization to assess the suggestions for implementation. When the coordinator or evaluator routed the IT-related suggestions to an IT evaluator for evaluation, they would have to request a work order and wait for IT staff availability. This contributed to the employee suggestions becoming over-aged and the high nonadoption rate due to timing of the implementation.

ESP evaluation process policies were not clear and were applied inconsistently

The criteria for a suggestion to be considered was not clear, which resulted in the high rejection rate. As stated previously, for a suggestion to be considered it must contain the following three basic criteria:

- A statement of the problem.
- The proposed solution for the problem.
- The benefits of the proposed solution.

Suggestions that meet the exclusion criteria (see Appendix II) were not considered because they were deemed ineligible. We determined that the criteria for acceptance and consideration of a submitted suggestion was not clear. The exclusion criteria erroneously included criteria used by evaluators to determine whether a suggestion should be adopted or not adopted. For example, suggestions in which the potential benefits would not offset the cost of processing would be deemed ineligible (see Appendix II, Item No. 8). The cost-benefit exclusion criterion resulted in a majority of submitted suggestions being rejected at the initial stage of review. However, determining the costs and benefits of a suggestion was the evaluator's responsibilities. We reviewed a sample of rejected suggestions submitted from FYs 2018 through 2021 and determined that most were erroneously rejected and not considered. In our judgmental sample of 40 "rejected" suggestions, we determined that 34 were not properly evaluated.¹⁸

For example, we reviewed a rejected suggestion regarding businesses engaged in potential tax fraud that issued Forms W-2, *Wage and Tax Statement*, to employees but did not file and pay the associated payroll taxes. The suggestion proposed a solution to establish a program designed to match the business's Employer Identification Number on Forms W-2 filed with the employee's Forms 1040, *U.S. Individual Income Tax Return*, against the IRS employer database. The suggestion included the benefit of identifying noncompliance in an area that would

¹⁷ The 3,638 does not include 204 suggestions that did not have a suggestion number and 26 suggestions that were in other statuses.

¹⁸ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

otherwise go undetected. The suggestion also stated that some employers may potentially owe several million dollars in unpaid employment taxes. This suggestion was rejected and not routed for further evaluation. The ESP coordinator's response included the following statement *"the ESP is meant to suggest ideas that save the government money."* This suggestion should not have been rejected as it included the three required elements to be considered. In addition, the ESP was not established only for ideas that result in cost savings, so the reason cited for rejection was inappropriate.

Approximately eight years later and unrelated to the ESP, Criminal Investigation developed a program addressing this suggestion's concerns that has resulted in significant assessments of several million dollars. Inside the IRS, this particular tax compliance problem has become known as "ghost employers" because the employers are keeping employees' withholdings but not filing or paying into the system, making it difficult for the IRS to identify them.

Our review also identified suggestions that potentially may improve the protection of taxpayer rights, which may not result in cost savings to the IRS. For example, we reviewed a rejected suggestion regarding a payment-posting problem for taxpayers in bankruptcy. The submitter of the suggestion noticed that all bankruptcy payments were funneled to one service center for processing and, due to the volume of payments coming in, payments were not processed on time, and sometimes, misapplied payments occurred. The submitter stated that this payment posting issue could potentially expose the IRS to taxpayer rights violations. This suggestion contained the basic required elements for a suggestion but was rejected. Further, this submitter was not provided a reason for rejection of the submission. We also found 18 of 40 suggestions from the same sample that were returned to the submitter due to missing estimated cost savings calculations. For example, using the same suggestion mentioned above, the employee received the following canned statement:

"The suggestion did not include the feasibility of implementing the suggestion by using the two principle criteria: its feasibility and its cost/benefit ratio" or the suggestion must show how it "contributes to economy, efficiency, safety or increases effectiveness of government operations."

This canned statement contradicts the ESP submission criteria because a cost savings calculation is not required. As a result, it appears that many suggestions were not evaluated based on their merit and were instead erroneously rejected.

The ESP guidance manual and ESP website is clear that a cost savings calculation is not mandatory when submitting a suggestion. The evaluators of the suggestions are responsible to conduct a cost-benefit analysis as part of their evaluation process to determine whether the submitted suggestion could be adopted or not adopted.

ESP administrators and users lacked training and expertise

ESP administrators did not receive or pursue training necessary to successfully do their job. The lack of training contributed to the ineffectiveness of the ESP. The ESP guidance documents noted the availability of tutorial videos for the users and ESP administrators as well as self-help training materials on the ESP website. When we interviewed the ESP administrators and users of the ESP system, a majority of them were not aware of the availability of these tutorial videos. Most had read the self-help training materials. Most of those interviewed stated they received

their brief training from the previous ESP administrators or taught themselves through trial and error.

The ESP coordinators did not have the expertise to determine if certain suggestions should have been accepted or rejected. During our interview with the coordinators, we found that some coordinators were in administrative positions and lacked the knowledge and experience necessary to determine whether a suggestion warranted further evaluation. ESP coordinators' primary responsibility is to identify subject matter experts (evaluators) and route suggestions to the appropriate evaluators. A suggestion was accepted for processing through the program when a coordinator determined that the suggestion was appropriate for an evaluator's review. For example, our sample review found that several complex employee suggestions requiring cross-function coordination were rejected and not considered for further evaluation. Given that these suggestions included the submission criteria to ensure consideration, they should not have been rejected. Due to their complexity, they should have been forwarded to the respective ESP business unit evaluators for further review. For instance, the example employee suggestion described previously regarding unremitted employment tax returns and employment taxes, *i.e.*, ghost employers, was complex and would require coordination with multiple business units such as Criminal Investigation; the employment tax, collections, and research specialty areas; and IT. This suggestion should have also received IT testing to determine if it was implementable.

The ESP business unit evaluators did not consider the overall concept of a suggestion, instead they made their determinations based on whether a suggestion could be adopted verbatim as described in the submission. The ESP business unit evaluators evaluate incoming suggestions from the ESP coordinators and determine whether to adopt or not adopt a suggestion for implementation and award, including performing the cost-benefit analysis. During our interview with the ESP business unit evaluators, the evaluators stated that they could not tweak a suggestion's wording to make it adoptable but had to evaluate the suggestion as specifically described by the submitter on a verbatim basis.

However, our review of the ESP guidance found that suggestions could be adopted and awarded based on their concept or key components that lead ultimately to a change to IRS processes. As with the ghost employer suggestion, it would have been appropriate to initially accept the suggestion so that it could be explored. Even though the suggestion was denied, the ESP administrator indicated that, if this suggestion was implemented, "*This would have a significant impact on voluntary tax compliance within the business community and even more importantly identify criminal cases for potential criminal prosecution.*"¹⁹

Additionally, there was no consideration for ideas that considered the benefits of promoting safety, which was an acceptable eligible suggestion criterion. ESP guidance states that any reduction in the number of work-related accidents or illnesses that can be directly attributed to the suggestion is included in this category. Our review determined that a majority of these suggestions were rejected.

¹⁹ The ghost employer problem is the subject of an ongoing Treasury Inspector General for Tax Administration audit that will review the IRS's efforts to implement techniques to identify ghost employers and bring these employers into tax compliance.

The ESP lacked support from the leadership of individual business units to act on adopting suggestions

The ESP, while in existence, received minimal support from the individual business units' leadership. Additionally, the HCO Service-Wide ESP Program Manager was not effective in applying the necessary leadership to compel the individual business units to act appropriately on accepting or adopting submitted suggestions. The ESP was established as an agency-managed program with cross-functional coordination, but in actuality, the program was operated and controlled at the business unit level. Consequently, the HCO Service-Wide ESP Program Manager did not have the full authority to act or enforce by directing the individual areas to aggressively evaluate and implement the submitted ideas. IRS senior management stated that business unit leadership did support the ESP overwhelmingly. However, our review found the support lacking from business unit leadership, which ultimately contributed to the ESP's failure.

In 2009 and 2016, the IRS conducted a Lean Six Sigma study of the legacy ESP system.²⁰ In that study, it was recommended by the Lean Six Sigma team that sufficient resources needed to be dedicated to the ESP system to make it more efficient and reliable and to improve the database's customer and program manager usability. The Lean Six Sigma team put forth several recommendations, including simplifying and streamlining the processing time for rejecting suggestions. However, the IT business unit stated, "due to the departure of their ESP IT support specialist, they no longer had the resources to resolve issues with the system quickly." Since 2016, the IRS has not hired or trained someone to replace the ESP IT support specialist. Further, we determined that the IRS did not implement any of the recommendations from the Lean Six Sigma study.

The ESP was shut down with no replacement. While the IRS indicated that the Idea Wall would accept employee ideas, it has not been active since August 2021. IRS senior management stated on March 15, 2022, that the Idea Wall system is still available for employees to submit suggestions; however, the system is not regularly maintained by IT and no staffing exists to regularly review incoming suggestions for acceptance or adoption. The last suggestion submitted to the Idea Wall was on August 20, 2021. While the ESP had its challenges, including the lack of IRS management support, the ESP should have been continued until a suitable replacement was implemented to engage employees on a Service-wide basis. Taking the steps necessary to improve the ESP would have demonstrated IRS leadership's commitment to listening to employees and improving IRS operations when possible.

The IRS Employee Engagement Plan Lacks a Service-Wide Employee Feedback Program

Business unit employee engagement plans do not allow employees to submit their ideas or suggestions

Some of the IRS business units have their own employee engagement initiative websites on which they provide information specific to their employee engagement plans. However, the

²⁰ Lean Six Sigma is a business strategy to improve processes through cutting waste and increasing efficiency. The Lean Six Sigma studies of the ESP in 2009 and 2016 were conducted by an internal IRS team.

business unit websites that we reviewed do not have a program in which employees can submit ideas or suggestions. We identified the following business units with their own employee engagement website:

- Appeals.
- Chief Financial Officer.
- Facilities Management and Security Services.
- Human Capital Office.
- Information Technology.
- Large Business and International Division.
- SB/SE Division.
- Taxpayer Advocate Service.
- Tax Exempt and Government Entities Division.
- Wage and Investment Division.

We reviewed the information and feedback processes available from these sites. For example, the Large Business and International Division site noted the development of LEAP Actions for FY 2022. These LEAP Actions define expectations and provide a framework for a concerted effort by managers to influence and positively impact their employees' engagement level and provides leadership with tools, tips, and best practices to enhance employee engagement. It also includes proposed actions for recognition and empowerment, with action items stating that managers will help employees recognize and use appropriate communication channels to report issues and concerns while encouraging employees to share feedback, ideas, and suggestions that may benefit the larger organization. These action items are informal, and any ideas or suggestions submitted would not be tracked and controlled. Additionally, there is no information on how employees can submit ideas or suggestions.

The SB/SE Division Employee Engagement link goes to one page that lists *Core Values - You Have a Voice, and We're Listening!* The pertinent objectives state that the SB/SE Division will:

- Improve employee engagement by creating vehicles and mechanisms to let employees know that they are being heard.
- Provide SB/SE operating units with tools and guidance to expand employee engagement opportunities.

However, the SB/SE Division Employee Engagement SharePoint site will not be launched until sometime in FY 2023.

The Wage and Investment Division's employee engagement strategy includes a goal to create a culture in which employees are empowered and invested in the organization. The objective pertaining to this goal is to encourage employees to recommend process improvements and for managers and program owners to provide timely and meaningful feedback. However, the Wage and Investment Division Engagement Operations Plan has no information on how employees can recommend process improvements.

The Appeals, Chief Financial Officer, Facilities Management and Security Services, and Tax Exempt and Government Entities engagement websites do not appear to have specific information on how employees can recommend process improvements. We were unable to locate employee engagement websites for the IRS Information Technology function or the Taxpayer Advocate Service. Overall, we found some of the business units did establish employee engagement strategies in support of the LEAP but are still lacking actionable idea generating programs.

The IRS no longer has an ESP that is consistent with IRS leadership core values

The ESP was a Service-wide program whereby IRS employees could have their voices heard. IRS leadership has no plans of replacing the ESP. The absence of a Service-wide employee feedback program goes against the IRS core values of Recognition and Empowerment and related IRS pillars of engagement, which includes empowering IRS employees to share issues or concerns regarding work processes. The first pillar, "Listen," states the following:

*Listen. Foster an inclusive culture in which all employees feel valued, respected and ideas are heard.*²¹

According to the IRS, other employee feedback mechanisms are in place and provide the capability to submit feedback through multiple methods. However, we found these options do not have the same reviewing processes as the ESP and are not a substitute for a Service-wide ESP.

The Federal Employee Viewpoint Survey (FEVS) is a Service-wide communication effort administered by the Office of Personnel Management and Department of the Treasury on an annual basis. The FEVS provides IRS employees an opportunity to give confidential feedback, informs senior leaders about challenges at the IRS that may need to be addressed, and gauges the success of IRS workforce initiatives. However, the FEVS does not allow for verbatim suggestions; rather, employees are asked to rate aspects of their work experience. The FEVS results are used to determine the Best Places to Work in the Federal Government. The IRS rank for Best Place to Work fluctuated between 223 and 287 out of over 400 subcomponent agencies from FYs 2018 through 2021.

The most recent IRS LEAP is for FYs 2022 through 2025. This LEAP document includes a statement that the IRS made the decision to focus on a multiyear approach to employee engagement and that the FEVS will include questions that support this focus area. Specifically, the FEVS includes questions pertaining to recognition and empowerment and whether employees feel encouraged to come up with new and better ways of doing things.

Figure 6 shows the top ten agency rankings in FY 2021 for employee engagement and employee satisfaction. The IRS ranked 271 out of 432 total Federal subcomponent agencies in engagement and satisfaction. At number eight is the National Aeronautics and Space Administration. As noted previously, the Challenger incident is a reminder of how powerful and important employee feedback is.

²¹ Publication 5397, Engagement and Retention, *The Four Pillars of Engagement*.

Figure 6: FY 2021 List of Agency Ranking for Engagement and Satisfaction

| Rank ^ | Agency | 2021 |
|--------|--|------|
| 1 | Directorate for Education & Human Resources, National Science Foundation | 93.0 |
| 2 | Office of the Executive Director, Federal Energy Regulatory Commission | 92.5 |
| 3 | Office of the General Counsel, Federal Energy Regulatory Commission | 92.1 |
| 4 | Directorate for Biological Sciences, National Science Foundation | 90.7 |
| 5 | Office of Inspector General, Small Business Administration | 90.6 |
| 6 | Office of Support Operations, Securities and Exchange Commission | 89.5 |
| 7 | Division of Housing, Mission, and Goals, Federal Housing Finance Agency | 89.2 |
| 8 | Kennedy Space Center, National Aeronautics and Space Administration | 88.7 |
| 9 | Tax Division, Department of Justice | 88.0 |
| 9 | Office of Government-wide Policy, General Services Administration | 88.0 |
| 11 | Directorate for Computer & Information Sciences & Engineering, National Science Foundation | 87.9 |
| ----- | | |
| 271 | Internal Revenue Service, Department of the Treasury | 68.5 |

Source: Office of Personnel Management FEVS website (engagement and satisfaction score) for FY 2021.

We also found that, in FY 2021, the IRS placed 360 out of 432 in the Innovation category and 295 out of 427 for Recognition, indicating low employee confidence in the willingness of IRS leadership to take actions when employees provide their feedback. The Innovation category measures employee perceptions of efforts to improve the way work is done, including their personal motivation to promote change and the support and rewards received for promoting new ideas. The Recognition category measures the extent to which employees feel they are recognized for their performance and innovative contributions to their workplaces.

Further, we found that, in FY 2022, when employees were asked to rank their work experiences, only 63 percent of the employees agreed with the statement “I feel encouraged to come up with new and better ways of doing things” and only 52 percent agreed that the IRS was committed to providing the necessary resources to develop new ideas. Additionally, the FEVS indicated that only 58 percent of IRS management encouraged innovations. The IRS leadership needs to give consideration to these low scores in comparison to other Federal agencies and should look to improve these scores prospectively.

The LEAP provides examples of meaningful actions the IRS can take associated with the engagement pillar of Listen. However, these actions are informal, and any ideas or suggestions submitted would not be tracked and controlled. Additionally, there is no information on how employees can submit ideas or suggestions. Further, IRS senior management stated that they do not see any correlation between LEAP and the ESP. They stated that LEAP does not include the use of the ESP, nor was LEAP used interchangeably with the ESP. They view LEAP as separate and distinct from the ESP. This viewpoint of separating the ESP from LEAP may have resulted in less support from IRS business unit leadership for the ESP.

In addition, the recently enacted Inflation Reduction Act of 2022²² will result in a surge of new employees and provides additional funding that could potentially support the development and implementation of a new employee feedback program. This new hiring effort may also create significant opportunities to improve the IRS onboarding process, especially if there is a program for employees to make suggestions. Employee feedback will be increasingly important to ensure that the processes for hiring and training these new employees are as effective and efficient as possible.

The IRS should consider establishing a new Service-wide employee feedback program for employee ideas and suggestions to improve the IRS processes even if the costs outweigh the benefits. The benefits may not always equate to tangible savings but, more importantly, do include increased employee engagement, innovation, and morale. Additionally, the Taxpayer First Act will provide the IRS the opportunity to improve IRS operations and services and to show the IRS leadership's commitment to listening to its employees. The IRS should use this opportunity to obtain employee feedback and recommendations through a new ESP to improve tax administration.

The program would need to capture ideas from employees and evaluate the ideas through an organized and efficient process. The new program should eliminate program disincentives and encourage constructive evaluations and feedback exchanges with employees.

The Chief, HCO, should:

Recommendation 1: Contact comparable Federal agencies with the highest levels of engagement and employee satisfaction scores and identify best practices of those agencies' ESPs.

Management's Response: The IRS agreed with this recommendation. The IRS will identify comparable Federal agencies with the highest levels of engagement and employee satisfaction scores and identify best practices of those agencies' ESPs.

Recommendation 2: Using the information from Recommendation 1 as well as employee survey data, develop options for a new Service-wide employee feedback process to support the agency's transformation efforts under the Inflation Reduction Act.

Management's Response: The IRS agreed with this recommendation and will analyze the results from Recommendation 1 and employee survey data. Based on that analysis, the IRS will develop a Service-wide employee feedback process to support the agency's transformation efforts under the Inflation Reduction Act.

²² Pub. L. No. 117-169, 136 Stat. 1818.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to review the effectiveness of the IRS ESP for FYs 2018 through 2021, including the benefits, costs, employee engagement, and taxpayer service improvements resulting from the program, and to evaluate whether the termination of the program as of October 1, 2021, was appropriate. To accomplish our objective, we:

- Identified and evaluated the policies, procedures, and other guidance related to the implementation and management of the ESP. This included reviewing the applicable portions of the Internal Revenue Manual, ESP Guidance handbook and ESP Training Guide, IRS and NTEU memoranda, requested documents, and other guidelines as applicable, as well as interviewing ESP administrators and IRS officials.
- Determined whether the decision to shut down the ESP was sufficiently supported by the HCO and IRS management through interviews with ESP administrators and IRS leadership. We assessed whether the ESP was effective, and where it was not effective, we determined the reasons for the lack of effectiveness.
- Conducted interviews of IRS employees and upper management and executives to assess their experience using the ESP and determine whether the importance of listening is a core value of IRS leadership.
- Reviewed and analyzed the ESP suggestion databases for the four-year period from FYs 2018 through 2021 and summarized the resulting data based upon those findings. We assessed the appropriateness of actions taken by the ESP administrators by reviewing a judgmental sample of 10 rejected and returned suggestions for each fiscal year.¹
- Determined whether IRS leadership planned any alternative to the ESP moving forward for employees to suggest ways to improve IRS operations.
- Determined the training provided to ESP administrators and whether the training contributed to the effectiveness of the ESP by reviewing the training materials and conducting interviews to assess employee experiences working on the ESP and whether they received the training needed to perform their duties.

Performance of This Review

This review was performed with information obtained from the IRS HCO located in Washington, D.C., during the period May through November 2022. 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.

¹ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

Major contributors to the report were Matthew Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations); Timothy Greiner, Director; Lee Hoyt, Audit Manager; Reatsamay Ly, Lead Auditor.

Validity and Reliability of Data From Computer-Based Systems

We evaluated the ESP 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: the ESP policies and procedures for evaluating and documenting rejected and returned suggestions. We evaluated these controls by interviewing IRS management and staff, reviewing data obtained from the ESP system, reviewing relevant documentation and metrics, and reviewing a judgmental sample of rejected and returned suggestions.

Appendix II

Suggestions Not Eligible for Consideration

| ESP Suggestion Ineligibility |
|---|
| 1. Suggestions currently under consideration. |
| 2. Suggestions considered within the preceding two years. |
| 3. Suggestions that were not the suggestion submitter's own idea. However, the suggestion may be considered if a different solution was proposed. |
| 4. Complaints, grievances, or other proposals that do not include a constructive and specific means for improving operations of the IRS. |
| 5. Suggestions to correct typographical errors in printing. |
| 6. Suggestions that call attention to the need for routine maintenance and repair work. |
| 7. Suggestions to improve working conditions. |
| 8. Suggestions where the potential benefits would not offset the cost of processing. |
| 9. Suggestions for employee services and benefits. |
| 10. Suggestions that were clearly within job responsibilities, unless they are so superior and/or meritorious that it warrants special consideration. |

Source: *IRS ESP Business/Operating Divisions Program Guide Handbook*.

The IRS ESP Business/Operating Divisions Program Guide Handbook stated that the ESP may be used to promote safety ideas resulting in benefits such as reducing accidents, increasing production, lowering costs, and increasing employee morale.

Appendix III

Management's Response to the Draft Report



HUMAN CAPITAL OFFICE

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

March 14, 2023

MEMORANDUM FOR HEATHER M. HILL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: David M. Aten
IRS Human Capital Officer

David M. Aten Digitally signed by David M. Aten
Date: 2023.03.14 09:21:40 -0400

SUBJECT: Draft Audit Report – The IRS Eliminated Its Employee Suggestion Program Without Plans for a Replacement (Audit #202230039)

Thank you for the opportunity to review and comment on the subject draft report, which evaluated the effectiveness of the IRS Employee Suggestion Program (ESP) and the decision to terminate the program as of October 1, 2021.

Employee engagement is vital to our efforts to make IRS the best place to work and empower a high-performing workforce who will execute the IRS mission. On average, seven in ten employees at IRS feel engaged at work per the OPM Governmentwide Management Report. We value employee feedback to improve the workplace, enhance retention, and advance the taxpayer experience.

The IRS Leadership Engagement Action Plan (LEAP) sets the strategy to foster a workplace that attracts and retains top talent. The LEAP provides meaningful engagement actions for leaders to foster an inclusive culture in which all employees feel valued and respected, and their ideas are heard. Feedback is encouraged through forums such as regular team meetings, townhalls, “walk in my shoes” activities, idea walls, lunch and learns, pulse surveys, and the Federal Employee Viewpoint Survey.

The IRS also takes seriously its fiduciary responsibilities to taxpayers, and in 2020 conducted a study on the effectiveness of ESP. As reported, the IRS estimated the cost at nearly \$21 million to run the ESP for the five years from Fiscal Year (FY) 2018 through FY 2021, while net tangible savings from FY 2017 through 2021 were only \$224,797. In line with the Treasury Inspector General for Tax Administration (TIGTA) finding that “administrative costs seemed excessive” and multiple factors “contributed to the ineffectiveness of the program,” in 2021 IRS terminated the program.

IRS agrees that not all employee suggestions reviewed by TIGTA for this audit were addressed timely. However, our evaluation of TIGTA's 40 sample submissions determined that the evaluation procedures were clear and applied consistently by the

ESP administrators and users who were given the opportunity for training. Consistent with ESP policies, each suggestion is required to contain basic elements, such as, a statement of the problem, a proposed solution and the benefits of the proposed solution. Our evaluation determined that these suggestions were not accepted because they failed to meet these basic elements.

While the IRS maintains numerous other programs and opportunities for employees to provide suggestions for improvements and be recognized when those ideas are adopted, we agree that an improved ESP could be a valuable tool. As part of FY 2022 term bargaining discussions with the National Treasury Employees Union, the IRS committed to explore a possible replacement program for employees to share their feedback to improve operations and save money. Furthermore, as the IRS works to transform the way we serve the nation's taxpayers, the Human Capital Transformation Employee Experience team has identified establishing a service-wide employee feedback program as a high-priority initiative. We agree with both recommendations in the report.

If you have any questions, please contact me at 202-317-3174, or a member of your staff may contact Geralda Larkins, acting Director, Labor/Employee Relations and Negotiations, at 954-849-1436.

Attachment

RECOMMENDATION 1:

Contact comparable Federal agencies with the highest levels of engagement and employee satisfaction scores and identify best practices of those agencies' ESPs.

CORRECTIVE ACTIONS:

The IRS agrees with this recommendation. The IRS will identify comparable Federal agencies with the highest levels of engagement and employee satisfaction scores and identify best practices of those agencies' ESPs.

IMPLEMENTATION DATE:

March 15, 2024

RESPONSIBLE OFFICIAL(S):

Director of Human Capital Transformation/Executive Lead, Employee Experience Transformation

CORRECTIVE ACTION(S) MONITORING PLAN:

The IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2:

Using the information from Recommendation 1 as well as employee survey data, develop options for a new service-wide employee feedback process to support the agency's transformation efforts under the Inflation Reduction Act.

CORRECTIVE ACTIONS:

The IRS agrees with this recommendation. The IRS will analyze the results from Recommendation 1 and employee survey data. Based on that analysis, the IRS will develop a service-wide employee feedback process to support the agency's transformation efforts under the Inflation Reduction Act.

IMPLEMENTATION DATE:

November 15, 2024

RESPONSIBLE OFFICIAL(S):

Director of Human Capital Transformation/Executive Lead, Employee Experience Transformation

CORRECTIVE ACTION(S) MONITORING PLAN:

The IRS will monitor this corrective action as part of our internal management system of controls.

Appendix IV

Glossary of Terms

| Term | Definition |
|------------------------|--|
| Adopted Suggestions | Suggestions that were evaluated on the merits and were adopted. |
| Intangible Benefits | Unmeasurable benefits that are difficult to quantify, such as cycle time, customer satisfaction, frustration and aggravation, job effectiveness, <i>etc.</i> |
| Nonadopted Suggestions | Suggestions that were evaluated on the merits but were not adopted. |
| Rejected Suggestions | Suggestions that failed the threshold requirements for a reviewable suggestion. |
| Returned Suggestions | Suggestions that did not meet the basic criteria of a suggestion returned to the employee for additional information. |
| Suggestion | A voluntary, written proposal submitted by an employee describing a proposal for improvement to an existing situation. |
| Tangible Benefits | Measurable benefits such as labor and benefits, postage, supplies, <i>etc.</i> |

Appendix V

Abbreviations

| | |
|-------|------------------------------------|
| ESP | Employee Suggestion Program |
| FEVS | Federal Employee Viewpoint Survey |
| FY | Fiscal Year |
| HCO | Human Capital Office |
| IRM | Internal Revenue Manual |
| IRS | Internal Revenue Service |
| IT | Information Technology |
| LEAP | Leadership Engagement Action Plans |
| NTEU | National Treasury Employee Union |
| SB/SE | Small Business/Self-Employed |



**To report fraud, waste, or abuse,
call our toll-free hotline at:**

(800) 366-4484

By Web:

www.tigta.gov

Or Write:

Treasury Inspector General for Tax Administration

P.O. Box 23291

Washington, D.C. 20026

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