



*The Planning and Implementation of Changes
to the Recruiting and Hiring Process Could
Be Improved*

September 2005

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 30, 2005

MEMORANDUM FOR CHIEF HUMAN CAPITAL OFFICER

Pamela J. Gardiner

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Planning and Implementation of Changes to the Recruiting and Hiring Process Could Be Improved
(Audit # 200410029)

This report presents the results of our review of the Internal Revenue Service's (IRS) ability to recruit and hire to meet its workforce needs. This audit was conducted as part of the Treasury Inspector General for Tax Administration's Fiscal Year 2005 Annual Audit Plan.

Synopsis

A major responsibility of a Chief Human Capital Officer (CHCO) is to set and oversee the workforce strategy of the agency. The CHCO is currently in the process of finalizing the IRS Human Capital Strategic Plan to set forth the strategies to ensure the IRS builds and maintains the workforce needed to carry out its mission. We asked about the status of the IRS efforts to realign its workforce to place more employees in "front-line" service, compliance, and enforcement positions. Human Capital Office (HCO) officials advised us that the HCO staff does not track this information. Furthermore, the HCO had difficulty in providing information on the planning and implementation of its own restructuring. We plan to perform further audit work to assess this reorganization and whether it has achieved its intended goal of realigning the workforce to place more employees in front-line service, compliance, and enforcement positions.

The plans and cost-benefit analysis for implementing the new recruiting and hiring system were inadequate. The IRS entered into an agreement with QuickHire[®] for a system known as CareerConnector in 2002. The system has an estimated cost of \$8.6 million over a 7-year period, and to date the IRS has incurred approximately \$2.5 million in internal costs to implement and operate this system. HCO officials stated they do not know the amount of savings that will result from the implementation of CareerConnector. A cost-benefit analysis for the web-based version



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of the CareerConnector system was not performed before it was implemented. The limited cost savings data to date do not appear to indicate the savings will be greater than the costs when the system is fully implemented. Furthermore, some Federal Government agencies have experienced significant problems with QuickHire[®] because of capacity limitations. One Federal Government agency terminated its contract because of the extent of the problems. The IRS is working with the contractor to ensure the system has the capacity needed and is properly tested before full implementation.

Some steps are being taken to improve the recruiting and hiring process. The IRS is using category ratings to improve its ability to hire the most qualified job candidates. It has also refined its assessments of applicants for mission critical occupations, such as the revenue agent and revenue officer occupations. While there are no specific data to show the effect of the new processes, the business unit staff we interviewed believes these enhancements have led to better hiring decisions.

Since May 2004, the Office of Personnel Management (OPM) has advocated that all Federal Government agencies strive to complete their hiring actions within 45 days, measured from the date a job vacancy announcement closes to the date an offer of employment is made. The IRS cannot measure the time it takes to complete an external hiring until CareerConnector is fully implemented. Furthermore, the HCO staff does not believe meeting the OPM 45-Day Hiring Model is feasible for some positions because of the additional actions necessary for these positions. The HCO has instead established a goal of providing a certificate to the selecting official within 21 days of a vacancy announcement closing, which is the portion of the hiring process for which they are directly responsible. Nonetheless, to help in progressing toward the OPM's 45-day goal, we believe the CHCO should work with individual business units to establish reasonable goals for the external hiring process, including the period from the date a job vacancy announcement closes to the date an offer of employment is made.

Recommendations

We recommended the CHCO establish policies and procedures to ensure the progress of workforce realignment is adequately assessed by the HCO. HCO officials should review performance measurements on a monthly basis as the HCO downsizing continues, to evaluate the impact of staff reductions and to ensure staffing is adequate to timely process vacancy announcements. The CHCO, in coordination with the Department of the Treasury, should perform an analysis to evaluate the impact CareerConnector will have on HCO staff reductions as well as the IRS' hiring efforts. This information should be used to complete a cost-benefit analysis to determine if the system will provide benefits to the IRS which exceed the costs of completing the implementation and then operating and maintaining the system. Lastly, for job categories in which the hiring process takes longer than 45 days, the CHCO should work with



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the business units to set appropriate goals and periodically evaluate the process to assess where further improvements could be made.

Response

HCO management stated they have effectively monitored the progress of the HCO portion of the Resource Optimization workforce realignment. Management will review HCO policies and procedures to determine whether additional action is necessary to ensure adequate assessment of their workforce realignment. Management believes they adequately monitor hiring measures and will continue to review performance measurements to evaluate the timeliness of vacancy announcement processing. The HCO plans to conduct a workload analysis once CareerConnector has been fully deployed. As new occupations are added to CareerConnector, the HCO is collecting return on investment data that document the old and new processes and project cost and time savings from the new process. The IRS has established service agreements for external hiring supported by CareerConnector consistent with the Department of the Treasury policy and has a workgroup developing IRS policy and implementation procedures. Management supports the OPM 45-Day Hiring Model and its goals but noted that the Model was developed without consideration of the IRS' multiphase processes, high-volume hiring, and need to sequence external hiring with internal placement actions. Management's complete response to the draft report is included as Appendix IV.

Office of Audit Comment

Management's response does not adequately address our recommendation to establish policies and procedures to ensure the progress of workforce realignment is adequately assessed by the HCO. Management's response appears to be limited to assessing the HCO's realignment. We believe the HCO should ensure it has the information needed to assess the progress of the overall IRS workforce realignment. The IRS response also does not adequately address our recommendation to establish baselines for positions that require extensive assessments and to measure and evaluate the process for further improvement. From the IRS' response, it is unclear whether the workgroup developing IRS policy and implementation procedures will work toward establishing baselines with which to evaluate the hiring processes for these positions. We have also included Office of Audit comments to specific issues in management's general discussion of the report as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.



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Background

The Internal Revenue Service's (IRS) Strategic Plan states the IRS will realign its workforce to place more employees in "front-line" service, compliance, and enforcement positions. One strategy the IRS indicates it will use to achieve the resources needed for this increase is to reduce staffing and implement process improvements in areas such as its internal support functions. The IRS has a number of efforts underway to achieve these reductions and process improvements. In Fiscal Year (FY) 2002, the IRS Commissioner directed IRS executives to reduce the number of personnel offices and to consolidate employment operations. As a result, the IRS performed a Resource Optimization Study of its human resource support functions. This study concluded that these functions could be streamlined to reduce duplications. The Resource Optimization Study recommendations were adopted by the Commissioner in October 2003.

Until the end of October 2003, the responsibility for human resource issues was included in what was known as the IRS Strategic Human Resources Division. While this office was responsible for policy matters and provided some human resources support, each of the IRS' operating divisions and functional units also had a human resources staff. In November 2003, the Human Capital Office (HCO) was established, which replaced the IRS Strategic Human Resources Division and took over some of the personnel functions performed by the IRS Agency-Wide Shared Services Division.

Based on the Resource Optimization Study, the IRS plans to eliminate a total of 741 Full-Time Equivalents (FTE)¹ from human resources support in its Headquarters and field offices. Most of this reduction comes from the HCO and Agency-Wide Shared Services Division. Table 1 shows the planned reductions of human resources staff. According to the HCO, as of April 29, 2005, it had achieved a reduction of 172 (52 percent) of the planned 330 FTEs. The Chief Human Capital Officer (CHCO) expects to complete the restructuring by October 2005.

Table 1: Planned FTE Reductions for Human Resources Support

Business or Functional Unit	Staff Reduction
Human Capital Office	330
Agency-Wide Shared Services	313
Small Business/Self-Employed Division	55
All Other Divisions and Functions	43
Total	741

Source: IRS HCO Staff.

¹ A measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FY 2005, 1 FTE is equal to 2,088 hours.



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Most of the reductions in the HCO come from its Talent, Hiring, and Recruitment Division, which has the primary responsibility for meeting the IRS' hiring needs. This Division is reducing its staff from 925 FTEs down to 634 FTEs, a reduction of 291 FTEs. Despite this 31 percent reduction in staff, the Talent, Hiring, and Recruitment Division must maintain its ability to process all of the IRS' hiring actions. Over the last 3 fiscal years, the IRS processed an average of 310,000 job applications annually and hired or promoted an average of 33,000 employees IRS-wide. Most of these are temporary or seasonal employees who are hired to meet the IRS' peak workload during the filing season for individual tax returns from January through April. The number of seasonal employees hired is decreasing each year as more taxpayers file electronic returns. Nonetheless, as the nature of the work in the IRS changes, the IRS is hiring more workers with professional or paraprofessional skills. Furthermore, the IRS must replace its retiring workforce. About 25 percent of all IRS employees are either currently eligible for retirement or will be eligible by 2006.²

The IRS planned to achieve the significant reductions in personnel devoted to hiring and recruiting by standardizing and automating its hiring and recruiting processes. In 2002, the IRS selected QuickHire[®], a commercial, web-based system tailored to fit the Federal Government recruitment process, as the system it would use to standardize and automate its hiring and recruiting processes. This system is now being implemented throughout the Department of the Treasury, in addition to the IRS, and is referred to as CareerConnector.

We performed this audit to evaluate the implementation of the IRS' hiring and recruiting system and its processes to meet its hiring and recruiting needs with reduced support staff. This review was performed at the IRS National Headquarters in the office of the CHCO during the period October 2004 through May 2005. Site visits were made to IRS offices in Holtsville, New York; Philadelphia, Pennsylvania; and Atlanta, Georgia. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

² IRS Oversight Board Annual Report 2004.



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Results of Review

Resource Optimization Planning Information Was Incomplete

A major responsibility of a CHCO is to set and oversee the workforce strategy of the agency. The CHCO is currently in the process of finalizing the IRS Human Capital Strategic Plan to set forth the strategies to ensure the IRS builds and maintains the workforce needed to carry out its mission. We asked about the status of the IRS efforts to realign its workforce to place more employees in front-line service, compliance, and enforcement positions. HCO officials advised us that the HCO staff does not track this information. That responsibility is left to the individual business units and the IRS Chief Financial Officer because the HCO is not involved in deciding which positions are needed and how the positions will be funded. They explained there is no practical way to determine which positions are filled as the result of initiatives, realignment, or hiring replacements to fill regular attrition as it occurs. The HCO could not report on the overall staffing reductions recommended in the Resource Optimization Study; it could only report on those 330 positions within its own offices.

Furthermore, there was a lack of data needed to identify how the HCO expects to accomplish recruiting and hiring for the IRS with the significant reduction in its own staff. After the reorganization, the staff will be reduced by 31 percent to about 634 FTEs and will be expected to handle an increased volume of hiring actions. The 330-position reduction in the HCO included about 291 in the Talent, Hiring, and Recruitment Division. As of March 2005, 153 employees had gone, with the balance to be off the rolls by October 1, 2005. During the audit, we requested documents to show how the proposed overall reduction of 330 positions and the 291 in the Talent, Hiring, and Recruitment Division was determined. We were advised that the goal was established at the request of the prior IRS Commissioner to be more in line with the human resource support ratios of other organizations. While the HCO staff was able to provide briefing documents and a study performed by a contractor which indicated that some type of staff reductions could be achieved, none of the documents contained any numerical data involving workload inventories, production rates, or other data normally developed and documented to support such a significant reorganization.

Because the HCO was unable to provide information needed to evaluate the new organization, processes, and workload capacity, we are unable to determine whether the IRS will be able to meet all of its hiring needs with the reduced staff it expects to have as of October 2005. Although we did not find any conclusive indications that the HCO has not been able to meet its hiring and recruiting workload with the reductions that have taken place to date, the HCO's FY 2005 third quarter business results report indicates that, compared with the third quarter of FY 2004, it is taking about 2 more days to process internal job applications to the point of getting



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them ready for ranking (a 12 percent increase).³ There are a number of factors which may have caused this increase; however, these measurements should be monitored closely to ensure adequate service levels can be maintained despite the reduction in staff.

Due to the lack of data available to evaluate the basis for the IRS reorganization resulting from its Resource Optimization Study, we plan to perform further audit work to assess this reorganization and whether it has achieved its intended goal of realigning the workforce to place more employees in front-line service, compliance, and enforcement positions.

Recommendations

Recommendation 1: The CHCO should establish policies and procedures to ensure the progress of workforce realignment is adequately assessed by the HCO.

Management's Response: HCO management stated they have effectively monitored the progress of the Resource Optimization workforce realignment. However, they will review their policies and procedures to determine whether additional action is necessary to ensure adequate assessment of their workforce realignment.

Office of Audit Comment: Management's response does not adequately address our recommendation. Our recommendation is not limited to the HCO's realignment. We believe the HCO should ensure it has the information needed to assess the progress of the overall IRS workforce realignment.

Recommendation 2: HCO officials should review performance measurements on a monthly basis as the HCO downsizing continues to evaluate the impact of staff reductions and to ensure staffing is adequate to timely process vacancy announcements.

Management's Response: HCO officials stated that, in FY 2005, the IRS met or exceeded initial goals for all major compliance and campus hiring initiatives and made 21,489 selections through June 30. The IRS monitors its hiring measures on a weekly basis and will continue to review its performance measurements to evaluate the timeliness of vacancy announcement processing.

The Plans and Cost-Benefit Analysis for Implementing the New Recruiting and Hiring System Were Inadequate

In selecting an automated hiring and recruiting system, the IRS sought a system in which all functions associated with the hiring and recruiting process could be performed online, including

³ See page 8 of this report for a description of the hiring process.



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job vacancy announcements, job applications, rating and ranking, and referral to the selecting official. The system also had to allow for knowledge and ability-based assessments and interface with the Office of Personnel Management's (OPM) automated system – USAJobs. Based on these requirements, IRS officials selected QuickHire[®] as the software for the IRS' new CareerConnector system, which is also being implemented throughout the Department of the Treasury. This system is not yet fully implemented at the IRS, and the total cost savings the system is expected to deliver have not been determined.

From the time CareerConnector was first used in November 2003 and through March 31, 2005, only 32 of the approximately 18,000 announcements posted by the IRS were processed using CareerConnector. Notwithstanding its limited use to date, Talent, Hiring, and Recruitment Division officials advised us that CareerConnector implementation is on schedule. Before the system is fully implemented, they want to ensure the following:

- HCO staff is adequately trained.
- Content has been developed for the appropriate job series.
- All IRS employees have access to a computer.
- Agreement with the National Treasury Employees Union on how the system will be used.

As of May 2005, CareerConnector can be used to process eight of the IRS' job series; over one-half of all IRS employees are in one of these eight occupations. The HCO is working to develop the content such as the critical skills and rating factors for the remaining IRS job series and intends to have all series ready by the end of Calendar Year 2005.

According to IRS officials, CareerConnector has met most of its expectations in the limited use that it has had so far. Applicants searching the OPM web site for IRS jobs can be automatically redirected to the CareerConnector system. CareerConnector accepts applicant resumes online and allows applicants to update their information when necessary. Once applicants complete the online application, the system ranks the applicants and identifies which applicants qualify for the position. It allows the HCO to send system-generated email to request additional information from applicants or inform them if they qualify for the position, to schedule interviews, and to communicate on such matters as job offers and preemployment activities.

The system does not yet provide certain functions such as fax imaging, a standing register,⁴ or ad hoc reports and queries. These features are currently being tested by the HCO. Release of the final phase of CareerConnector is on hold until they can be sure the system will integrate with the OPM's new e-government system known as Recruitment One Stop. Recruitment One Stop provides a search engine for searching on more than 100 Federal Government agency sites and a resume builder to create a basic resume that can be used to apply for positions across the Federal

⁴ A standing register provides a list of interested and qualified candidates ready to be certified for current and future vacancies. It provides flexibility to meet large-volume recruitment needs such as campus hiring for the IRS.



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Government. The HCO is not certain when the final phase of CareerConnector will be implemented.

A cost-benefit analysis was not performed before the CareerConnector system was implemented

The IRS entered into the agreement with QuickHire® for CareerConnector in 2002. The system has an estimated cost of \$8.6 million over a 7-year period, which includes the cost of operations, maintenance, training, hosting facility costs, equipment costs, costs for developing special reports, and fees for special modules. QuickHire® provides the application server for this system. In addition to the \$8.6 million expected to be paid to QuickHire®, there have also been approximately \$2.5 million in internal IRS costs such as staff hours and travel in support of the project.

IRS guidance states that a business case analysis should be performed to provide comprehensive justification for investment in a capital asset.⁵ The analysis should provide a model of what the IRS expects to be able to achieve by pursuing a specific course of action. It should contain a spending summary, project justification (including benefits and return on investment) and cost, schedule, and performance goals. However, HCO officials stated that they do not know the amount of savings that will result from the implementation of CareerConnector. A cost-benefit analysis for the web-based version of the CareerConnector system was not performed before it was implemented. The HCO staff has only been able to estimate the cost savings for two IRS campus positions, data transcribers and clerks. They used the savings associated with those 2 announcements at 1 IRS campus to project the potential savings for all 10 campuses.

During FY 2004, the IRS hired over 7,000 employees for those 2 positions and estimated an overall cost savings of over \$111,000 could have been achieved had CareerConnector been used when hiring all 7,000 employees. See Table 2 for the savings projected. The \$111,000 divided by the 7,000 employees indicates a savings of \$15.86 per employee hired. The IRS also expects to be able to reduce its support costs to the OPM of about \$800,000 annually by approximately \$386,000 a year once CareerConnector is fully implemented. These savings include the elimination of costs for certain notices, booklets, and inventory maintenance fees for the revenue officer occupation.

Table 2: Savings Associated With the Use of CareerConnector

<i>Expense Type</i>	<i>Dollars Saved</i>
Testing Sessions	\$37,440
Printing Costs	17,306
Fingerprinting	50,232
Postage	6,317
Total Savings	\$111,295

Source: IRS HCO Staff.

⁵ *Business Cases, An Executive Briefing*, IRS (June 30, 2000).



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These projections do not appear to indicate that the savings from CareerConnector once it is fully implemented will justify the cost. We asked HCO officials to provide information on whether any of the staff reductions can be attributable to the implementation of the CareerConnector system. HCO officials advised us the staff reductions were planned independently of the implementation of the CareerConnector system. While they believe the CareerConnector system will be an integral component of the overall efficiencies gained, they do not attribute any of the staff reductions directly to the implementation of the system.

Some Federal agencies have experienced problems using QuickHire®

There are indications that problems could occur as the IRS increases its use of the CareerConnector system. The IRS requires the CareerConnector system to allow a large number of screening questions and not limit the number of vacancy announcements on the system. However, at least two Federal Government agencies have had significant problems with QuickHire's® ability to handle a large number of announcements and applicants' information. Both agencies had to discontinue using the software system.

The Department of Homeland Security and the Department of Health and Human Services were told by QuickHire's® parent company, Monster Government Solutions, that the problems were caused by the large number of announcements the agencies had on the system, the large number of questions on the applications (or where the applicants had to respond to questions with large amounts of data), and the high volume of applicants. A representative from the Department of Homeland Security stated that, when the problems with QuickHire® started occurring in January 2005, there were 300 job vacancy announcements open. Because of the problems, about 232,000 applications were lost. The Department of Health and Human Services also posts a large number of announcements; over 700 were open on 1 day in April 2005. That is approximately the same number of announcements the IRS had open 1 day in April 2005; however, very few were on CareerConnector.

Both the Department of Homeland Security and the Department of Health and Human Services took their job sites down in early March 2005. The Department of Homeland Security has since had to hire staff to process new applications by hand. The Department of Health and Human Services⁶ is still working with Monster Government Solutions to resolve the problem affecting QuickHire®. However, in June 2005, the Department of Homeland Security terminated its contract with Monster Government Solutions. The "termination for cause" notification stated, "The system failed repeatedly. Specifically, employees accessing the system were involuntarily exited from the system or were unable to access the system at all. During the failures, the system

⁶ The Department of Health and Human Services uses a different version of QuickHire® from the one that is used by the IRS and the Department of Homeland Security.



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‘froze’ and then displayed an error message.” The system the Department of Homeland Security was using was the web-based QuickHire Xi[®], the same system that is being used by the IRS.

Officials from the Department of the Treasury⁷ and the IRS met with Monster Government Solutions to discuss their concerns over the system’s ability to handle increasing volumes of applicants. Monster Government Solutions has been making upgrades and adding enhancements to the system and plans to perform tests to evaluate the system’s ability to handle increased volume. Representatives from Monster Government Solutions have stated that they will make adjustments to server capacity, hardware, and software performance based on the results of the tests.

By bringing the software system up slowly and limiting the number of announcements as CareerConnector is being tested and certified, the IRS hopes to avoid some of the problems experienced by other agencies. The IRS will need to monitor this closely. The staff reductions that are taking place in the HCO would limit the IRS’ ability to manually process applications.

Recommendation

Recommendation 3: The CHCO, in coordination with the Department of the Treasury, should perform an analysis to evaluate the impact CareerConnector will have on HCO staff reductions as well as the IRS’ hiring efforts. This information should be used to complete a cost-benefit analysis to determine if the system will provide benefits to the IRS and the Department of the Treasury which exceed the costs of completing the implementation and then operating and maintaining the system.

Management’s Response: The HCO plans to conduct a workload analysis once CareerConnector has been fully deployed. As new occupations are added to CareerConnector, the HCO is collecting return on investment data that document the old and new processes and project cost and time savings from the new process.

Some Steps Are Being Taken to Improve the Recruiting and Hiring Process

The IRS has taken a number of actions to improve the recruiting and hiring process. The IRS is using category ratings and has improved its screening process of the number of highly qualified

⁷ The Department of the Treasury and the IRS agreed to integrate CareerConnector into the Department of the Treasury’s HR Connect suite of services effective for FY 2003. CareerConnector was not operational for use by any Department of the Treasury bureau until November 2003 when it was first used by the IRS.



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candidates hired. The hiring process used by the IRS and most Federal Government agencies involves five basic steps:

- Vacancy Posting – employees and the general public are made aware of job vacancies.
- Qualification Validation – applicants’ packages are reviewed for completeness and some information, like college transcripts or Certified Public Accountant qualifications, are verified.
- Rating and Ranking – individual applications are rated and applicants are scored or grouped into categories. This will occur after any job assessments have been completed.
- Certification – a list of the best-qualified applicants is provided to the individual responsible for selecting which applicants will be hired.
- Applicant Notification – the process of actually notifying the job applicant.

To improve the IRS’ ability to hire the most-qualified job candidates, the IRS Restructuring and Reform Act of 1998⁸ allowed the IRS to use category ratings for job applicants.⁹ The new authority does away with the restriction to hire from only the candidates whose job application packages were rated as the top three based on a system to score factors such as education and experience.¹⁰ With category rating, job candidates can be separated into two or more categories, with anyone in the top category eligible for selection.¹¹

The IRS classifies job candidates into three categories. Candidates respond to questions about their education, skills, prior work experience, and professional certifications. Based on their answers, eligible applicants are rated as potential A (Superior), B (Highly Qualified), or C (Qualified) candidates. The process of separating ineligible candidates from eligible candidates, and then rating the eligible candidates, can be completed in a shorter period of time using the IRS recruiting and hiring software, CareerConnector, than the established manual process.

Applications in the top category (A) are then adjudicated, which involves verifying the applicants’ transcripts, substantiating courses and semester hours, and prior work experience. Because applications rated as B and C are not adjudicated, there is some savings due to the reduction in time that would have been spent on these applications. The IRS plans to continue to adjudicate category A applications because, in two recent job announcements, less than one-half of the candidates who were initially rated in the top category remained in this category after the information they provided was adjudicated. The Talent, Hiring, and Recruitment Division staff

⁸ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

⁹ Category rating was first employed by the IRS to facilitate the hiring of over 350 revenue agents in FY 2001.

¹⁰ The Rule of Three is a requirement that selection must be made from the three highest-rated eligible candidates who are available for the job for which they applied.

¹¹ Subject to veterans’ preference requirements.



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believes the high fallout rate is attributed to the advanced and specific educational requirements associated with the revenue agent job series. The revenue officer job series does not have such a high fallout rate.

The category rating process is approved for revenue agent and revenue officer positions, which account for approximately 17 percent of the IRS' total staffing. The IRS has identified two other positions, customer service representative and tax examiner, for which it is considering the use of category ratings. These 2 additional job series account for about 29 percent of the IRS' total staffing. Category rating is best suited to professional and technical occupations with clearly defined qualifications that allow for classification into category groups and where the employer wants the flexibility to select from a wide pool of candidates. The IRS intends to use category rating to the greatest extent possible.

A study of the IRS use of the category rating process performed by an independent organization in 2003 concluded the category rating process had "increased the applicant pool, reduced the length of the hiring cycle, and facilitated the hiring of high-quality applicants for key positions, thereby contributing to the success of the recruitment initiative."¹²

Assessment screening

The IRS has refined its assessments of applicants for mission critical occupations, such as the revenue agent and revenue officer occupations. The process is different for each of the occupations. For example, revenue agent candidates who are rated in the top category are given an accounting test to measure the applicant's understanding of accounting principles. An outside contractor hired by the IRS then performs an assessment over the telephone to evaluate the applicant's general competencies such as problem solving, decision making, and interpersonal skills. In contrast, revenue officer candidates are given an online assessment to evaluate their skills in areas such as decision making, financial management analysis, flexibility, and integrity when they are completing the application process on CareerConnector. Their scores on this assessment are considered when they are rated into the rating categories. Candidates in the top category must then undergo a second assessment similar to that of the revenue agent candidates.

Both revenue agent and revenue officer candidates that pass the assessment screening are then interviewed by managers from the business units to evaluate and decide which applicants should be hired. While there is no specific data to show the effect of the new processes, the business unit staff we interviewed believes this enhanced assessment process has led to better hiring decisions.

¹² *Modernizing Human Resource Management in the Federal Government: The IRS Model* (IBM Endowment for the Business of Government, dated April 2003).



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The Timeliness of the External Hiring Process Should Be Measured and Appropriate Goals Set

Since May 2004, the OPM has advocated that all Federal Government agencies strive to complete their external hiring actions within 45 days, as measured from the date a job vacancy announcement closes to the date an offer of employment is made. Historically, the IRS has not been able to measure the time it takes to complete an external hiring action. HCO staff informed us that only those job vacancies processed on CareerConnector can be measured. Service support agreements for two business units we reviewed note:

Right now, the HCO can only measure external hiring cycle time with CareerConnector and has no real benchmark for external hiring cycle times.

The HCO staff does not believe meeting the OPM 45-Day Hiring Model is feasible for some positions because of the additional actions necessary for these positions. For example, some of the pre-hiring screening processes (particularly those related to the revenue agent, revenue officer, and the criminal investigator positions) and the criminal background check common to most positions can significantly extend the time needed to hire an applicant. Once this process is completed, some positions also require tax compliance reviews before an offer of employment can be made.

For these reasons, HCO officials advised us that the HCO has established a goal of providing a certificate to the selecting official within 21 days of a vacancy announcement closing. They chose this goal because they believe they should only be held accountable for the portion of the hiring process for which they are directly responsible. However, not all of the service support agreements provided to us were consistent with respect to timeliness goals. While 3 clearly stated the 21-day goal for delivering the certificate, 5 did not include this goal. Those agreements without the 21-day goal stated that the HCO staff would work with the business unit to develop an action plan.

HCO officials anticipate that automating the qualification, rating, and ranking process will significantly reduce the time it takes to deliver the certificate to the selecting official, which in turn may allow the IRS to meet the 45-day goal as defined by the OPM. To help in progressing toward this goal, we believe the CHCO should work with individual business units to establish reasonable goals for the external hiring process. For the majority of its hiring efforts, the IRS should attempt to achieve the OPM goal of 45-days. For the positions which require extensive assessments and testing, baselines should be established and appropriate goals set.



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Recommendation

Recommendation 4: For job categories in which the hiring process takes longer than 45 days, the CHCO should work with the business units to set appropriate goals and periodically evaluate the process to assess where further improvements could be made.

Management's Response: The IRS has established service agreements for external hiring supported by CareerConnector consistent with the Department of the Treasury policy and has a workgroup developing IRS policy and implementation procedures. Management supports the OPM 45-Day Hiring Model and its goals but noted that the Model was developed without consideration of the IRS' multiphase processes, high-volume hiring, and need to sequence external hiring with internal placement actions.

Office of Audit Comment: The IRS response does not adequately address our recommendation. We recommended that baselines be established for positions that require extensive assessments and tests and that appropriate overall hiring timeline goals be established, measured, and evaluated for further improvement. From the IRS' response, it is unclear whether the workgroup developing IRS policy and implementation procedures will work toward establishing baselines with which to evaluate the hiring processes for these positions.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the Internal Revenue Service's (IRS) ability to recruit and hire to meet its workforce needs. To accomplish this objective, we:

- I. Interviewed Human Capital Office (HCO) officials to determine their level of interaction with other IRS functional units in developing a strategic approach to the IRS' human capital needs.
- II. Determined if the HCO has established an adequate strategy and has developed sufficient processes to enable the IRS to meet its hiring needs.
 - A. Reviewed the Human Resource Optimization study on which the realignment of the recruiting and hiring functions was based.
 - B. Evaluated the progress of the HCO in accomplishing its plans to reorganize and whether it is on schedule to meet its goals.
 - C. Identified the measures the HCO uses to determine the success of its hiring efforts.
 - D. Determined how the HCO plans to meet the IRS' long-term strategic recruiting and hiring needs.
- III. Evaluated whether the implementation of CareerConnector will achieve the efficiencies necessary for the HCO to recruit and hire with a smaller staff without a decrease in the quality of the work performed.
 - A. Requested the business case for the implementation of CareerConnector to determine if the assumptions were reasonable.
 - B. Determined the current status of CareerConnector and the degree of functionality achieved through phase 4 and efficiency gained to date. We determined what additional functionality and efficiency is expected from phases 5 and 6 and the cost to complete these phases.
 - C. Determined the date CareerConnector will be fully implemented and the number of job series which will eventually be included in CareerConnector.
 - D. Identified problems associated with the use of CareerConnector and the actions taken and planned to resolve those problems.



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Appendix II

Major Contributors to This Report

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

Michael E. McKenney, Director

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Appendix III

Report Distribution List

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Audit Liaison: Chief Human Capital Officer OS:CFO



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Appendix IV

Management's Response to the Draft Report



CHIEF
HUMAN CAPITAL OFFICER

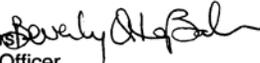
DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

RECEIVED
SEP 23 2005

September 23, 2005

MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Beverly Ortega Babers 
Chief Human Capital Officer

SUBJECT:

Draft Audit Report – The Planning and Implementation of
Changes to the Recruiting and Hiring Process Could Be
Improved (Audit # 200410029)

This is provided in response to the draft report of August 18, 2005, on Audit #200410029. The initial objective of this review was to assess the Internal Revenue Service (IRS) ability to recruit and hire to meet its workforce needs. However, the scope was expanded to include the planning and implementation of HCO's Resource Optimization Study and the cost-benefits of CareerConnector.

HCO has aptly met its obligation to achieve efficiencies in its support activities to assist the IRS in shifting staff savings to frontline enforcement work. The HCO has effectively monitored the progress of its Resource Optimization workforce realignment, which will be completed October 15, 2005. We established policies and procedures early on and have been vigilant in tracking our resource reductions to ensure our goals were met. The HCO imposed hiring restrictions and a formal vacancy management system to ensure reduction goals were met and to allow critical vacancies in continuing positions to be filled. HCO tracked non-continuing positions using a centralized database, regularly analyzed progress toward targeted staff reductions, and reported to IRS leadership on placement of impacted employees in our FY 04 and 05 Business Performance Reviews (BPRs) beginning with the April 2004 BPR. In addition, we issue regular internal reports on all phases of our restructuring implementation.

TIGTA's primary concern appears to be HCO's inability to point to Mission Critical Occupation (MCO) hires that have resulted from HCO's downsizing. HCO's optimization savings of 330 FTEs and \$8 million were permanently taken from our base funding beginning in FY 05. This assessment was reallocated corporately for unfunded budget initiatives, unfunded pay raises, and prior year annualizations, among other uses. With effective corporate management of all funds, the IRS increased tax law enforcement as a percent of total FTE by 2.05% since 2003.



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In FY 05, IRS met or exceeded initial goals for all major compliance and campus hiring initiatives and made 21,489 selections for all hiring through June 30, 2005. Since Modernization, we have met 100% of our hiring goals, even as our staffing has decreased substantially and our employment branches have been consolidated from 23 to 9. The IRS monitors its hiring measures on a weekly basis. The formal quarterly hiring activity reports and our Business Performance Reviews reflect how we use the measures and their results.

Our ability to meet the hiring demands despite our reductions is not coincidental. In 2002, the Commissioner approved a plan to reduce the number of personnel branches and achieve efficiencies through consolidation and centralization consistent with trends in other agencies. The plan called for incremental reductions to be accomplished over several years. We focused on working with the business units to identify hiring requirements and on process improvements; we consolidated staff to leverage resources more effectively and to keep all staff fully employed; and we achieved staff reductions through attrition, VERA/VSIP opportunities, and consideration of impacted employees for vacancies in continuing positions. We monitored capacity to ensure the HCO could continue to meet hiring demands as resources declined. Two separate workload balancing analyses were conducted to enable us to balance employment staff resources with workload indicators. The workload balancing was based on client base, applications processed, and selections made using a weighted formula. Throughout the process, the IRS has succeeded in meeting its hiring needs, and there is no reason to expect a decline in service or capacity. This is particularly true as hiring demand has declined 26% from FY 01 to FY 04, as documented in data provided during the audit.

The IRS has not encountered the severe capacity issues with the QuickHire Xi (CareerConnector) product recently reported in the press and highlighted by TIGTA. We have concern with the importance being given to the problems reported by a very small percentage of the 40 Federal agencies successfully using the system. In fact, the results of a recent performance test of the system shows that the latest release of the product should support 19,000 applicants per 15-hour day with 400 HR users. The IRS has taken a very careful approach in our transition from CareerConnector pilot to full implementation. We are on track with our rollout of the software to our employment offices. Since the TIGTA audit was conducted, the IRS has expanded Campus recruiting using CareerConnector to include additional occupations and 6 employment offices. We have also implemented a scheduler pilot in tandem with the increase in Campus recruiting.

We believe the methodology TIGTA used to determine return on investment for CareerConnector is flawed and plan to conduct a workload analysis once CareerConnector is fully deployed. The analysis will consider the impact of CareerConnector, new hiring strategies, and evolving customer hiring needs such as the impact of electronic filing. We will not solely measure the value of



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CareerConnector in terms of costs and impact of staff resource needs. This is important because the decision to adopt an automated hiring system and the choice to use CareerConnector were not driven by cost savings. Rather, IRS leadership directed the Human Resources functions to obtain and use a single automated system for recruitment and hiring to achieve qualitative improvements. As new occupations are added to CareerConnector, the HCO is collecting return on investment data that documents the old and new processes and projects cost and time savings from the new process.

The HCO partners with the business units to ensure hiring initiatives are accomplished in a timely manner to meet business unit needs, and we plan to continue this process. HCO's consideration of the new OPM 45-day hiring model is reflected in our Business Performance Reviews as early as April 2004. The Treasury policy on the 45-day hiring model was issued in February 2005. The IRS has already established service agreements for external hiring supported by CareerConnector consistent with the Treasury policy and has a workgroup developing IRS policy and implementation procedures. Broad implementation is dependent on the cycle time savings provided by CareerConnector. While the IRS fully supports the 45-day model and its goals, it is important to note that this model was developed without consideration of our multi-phase processes, high volume hiring, and need to sequence external hiring with internal placement actions.

We hope this information is helpful and feel confident that our goals and actions will meet the interests identified in this report. We have discussed TIGTA's concerns with CFO staff and will explore whether a joint meeting with TIGTA for additional discussion would be beneficial. The attachment outlines the corrective actions we plan to take. If you have any questions, please contact Buff Tsitouras at (202) 622-7725.

Attachment



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Attachment

RECOMMENDATION 1:

The CHCO should establish policies and procedures to ensure the progress of workforce realignment is adequately assessed by the HCO.

CORRECTIVE ACTION:

The HCO has effectively monitored the progress of its Resource Optimization workforce realignment which will be completed October 15, 2005. We established policies and procedures such as hiring restrictions and a formal vacancy management system to ensure reduction goals were met and to allow critical vacancies in continuing positions to be filled. HCO tracked non-continuing positions using a centralized database, regularly analyzed progress toward targeted staff reductions, and reported to IRS leadership on placement of impacted employees in our FY 04 and 05 Business Performance Reviews (BPRs) beginning with the April 2004 BPR. HCO also tracks and issues reports on the personnel related items for our own and other workforce initiatives. We will review our policies and procedures to determine whether additional action is necessary to ensure adequate assessment of our workforce realignment.

IMPLEMENTATION DATE:

November 15, 2005

RESPONSIBLE OFFICIAL:

Rich Cronin, Director, Talent, Hiring & Recruitment Division

RECOMMENDATION 2:

HCO officials should review performance measurements on a monthly basis as the HCO downsizing continues to evaluate the impact of staff reductions and to ensure that staffing is adequate to timely process vacancy announcements.

CORRECTIVE ACTION:

Since Modernization, IRS has met 100% of our hiring goals, even as our staffing has decreased substantially and our employment branches have been consolidated from 23 to 9. In FY 05, IRS met or exceeded initial goals for all major compliance and campus hiring initiatives and made 21,489 selections through June 30. The IRS monitors its hiring measures on a weekly basis. The formal quarterly hiring activity reports and our Business Performance Reviews reflect how we use the measures and their results. We will continue to review our performance measurements to evaluate the timeliness of vacancy announcement processing.

IMPLEMENTATION DATE:

Completed



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RESPONSIBLE OFFICIAL:

Rich Cronin, Director, Talent, Hiring & Retention Division

RECOMMENDATION 3:

The CHCO, in coordination with the Department of the Treasury, should perform an analysis to evaluate the impact CareerConnector will have on HCO staff reductions as well as the IRS hiring efforts. This information should be used to complete a cost-benefit analysis to determine if the system will provide benefits to the IRS and the Department of the Treasury which exceed the costs of completing the implementation and then operating and maintaining the system.

CORRECTIVE ACTION:

The HCO plans to conduct a workload analysis once CareerConnector has been fully deployed. The analysis will consider the impact of CareerConnector, new hiring strategies, and evolving customer hiring needs such as the impact of electronic filing. The IRS does not anticipate solely measuring the value of CareerConnector in terms of costs and impact of staff resource needs. As new occupations are added to CareerConnector, the HCO is collecting return on investment data that documents the old and new processes and projects cost and time savings from the new process.

IMPLEMENTATION DATE:

November 15, 2006

RESPONSIBLE OFFICIAL:

Rich Cronin, Director, Talent, Hiring and Recruitment Division

RECOMMENDATION 4:

For job categories in which the hiring process takes longer than 45 days, the CHCO should work with the business units to set appropriate goals and periodically evaluate the process to assess where further improvements could be made.

CORRECTIVE ACTION:

The HCO partners with the business units to ensure hiring initiatives are accomplished in a timely manner to meet business unit needs, and we plan to continue this process. HCO's consideration of the new OPM 45-day hiring model is reflected in our Business Performance Reviews as early as April 2004. The Treasury policy on the 45-day hiring model was issued in February 2005. The IRS has established service agreements for external hiring supported by CareerConnector consistent with the Treasury policy and has a workgroup developing IRS policy and implementation procedures. Broad implementation is dependent on the cycle time savings provided by CareerConnector. While the IRS fully supports the 45-day model and its goals, it is important to note that this



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model was developed without consideration of our multi-phase processes, high volume hiring, and need to sequence external hiring with internal placement actions.

IMPLEMENTATION DATE:

November 15, 2006

RESPONSIBLE OFFICIAL:

Rich Cronin, Director, Talent, Hiring & Recruitment



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Appendix V

Office of Audit Comments on Management's Response

In response to our draft report, the Chief Human Capital Officer (CHCO) included some general comments and assertions we believe warrant additional comment. We have included portions of management's response and our related comments below.

Management's Response: *The initial objective of this review was to assess the Internal Revenue Service's (IRS) ability to recruit and hire to meet its workforce needs. However, the scope was expanded to include the planning and implementation of HCO's Resource Optimization Study and the cost-benefits of CareerConnector.*

Office of Audit Comment: Both of these issues were part of the original scope of this audit. They are both important facets of the IRS' recruiting and hiring efforts. The planning and implementation of the Human Capital Office's (HCO) Resource Optimization Study resulted in significant reductions in the HCO Talent, Hiring, and Recruitment Division. Furthermore, one of the objectives of the Resource Optimization Study was to reduce support staff so the workforce could be realigned to front-line service and enforcement positions. The CareerConnector system was an important component of the IRS' effort to standardize and automate its hiring and recruiting processes. We believe the projected costs and benefits of the system should have been estimated early on in the process to better understand its impact on the recruiting and hiring processes.

Management's Response: *TIGTA's primary concern appears to be HCO's inability to point to Mission Critical Occupation (MCO) hires that have resulted from HCO's downsizing. HCO's optimization savings of 330 FTEs and \$8 million were permanently taken from our base funding beginning in FY 05. This assessment was reallocated corporately for unfunded budget initiatives, unfunded pay raises, and prior year annualizations, among other uses. With effective corporate management of all funds, the IRS increased tax law enforcement as a percent of total FTE by 2.05% since 2003.*

Office of Audit Comment: We are concerned with the HCO's inability to provide information on the number of front-line service and enforcement hires that have resulted from the downsizing in human resource support staff. We believe the HCO should be in a position to assess the status of the IRS-wide workforce realignment. The CHCO states the optimization savings of 330 Full-Time Equivalents (FTE) and \$8 million were reallocated and used for unfunded budget initiatives, unfunded pay raises, and prior year annualizations, among other uses. However, the authorization to make these staffing reductions through buyouts and early-outs to employees was based on realigning the



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workforce to front-line service and enforcement positions. While HCO management states that tax law enforcement has increased as a percentage of total FTEs by 2.05 percent since 2003, they were unable to provide information needed to evaluate the progress of IRS workforce restructuring compared to its goals.

Management's Response: *In FY 2005, IRS met or exceeded initial goals for all major compliance and campus hiring initiatives and made 21,489 selections for all hiring through June 30, 2005. Since Modernization, we have met 100% of our hiring goals, even as our staffing has decreased substantially and our employment branches have been consolidated from 23 to 9.*

We monitored capacity to ensure the HCO could continue to meet hiring demands as resources declined. Two separate workload balancing analyses were conducted to enable us to balance employment staff resources with workload indicators. The workload balancing was based on client base, applications processed, and selections made using a weighted formula.

Office of Audit Comment: While overall staffing has generally declined over the past few years, the IRS Commissioner's goal has been to redistribute at least 10 percent of the IRS workforce to front-line service, compliance, and enforcement activities. This would involve approximately 10,000 positions, most if not all of which would be realigned through the competitive hiring process overseen by the HCO. Although HCO management asserts that two workload analyses were conducted, management did not provide this information to us during our audit or after we provided them with a preliminary copy of our report. Management provided only a single spreadsheet that they referred to as a "capacity study." The study indicated that, if the IRS were placed in a position to conduct routine hiring efforts and simultaneously had to handle what it termed Transition work (conduct any Reduction in Force associated with other restructuring efforts), the IRS would have to temporarily hire a contractor to meet the workload evaluated in the study. The study indicated the IRS could face a significant staffing gap of as many as 100 HCO employees in the second quarter of Fiscal Year 2005. While that did not occur, the IRS' own calculations indicated staffing shortages might be encountered well before the HCO office is fully downsized.

Management's Response: *The IRS has not encountered the severe capacity issues with the QuickHire Xi (CareerConnector) product recently reported in the press and highlighted by TIGTA. We have concern with the importance being given to the problems reported by a very small percentage of the 40 Federal agencies successfully using the system. In fact, the results of a recent performance test of the system shows[sic] that the latest release of the product should support 19,000 applicants per 15-hour day with 400 HR users. The IRS has taken a very careful approach in our transition from CareerConnector pilot to full implementation. We are on track with our rollout of the software to our employment offices. Since the TIGTA audit was conducted, the IRS has expanded Campus recruiting using CareerConnector to include additional occupations and 6 employment offices. We have also implemented a scheduler pilot in tandem with the increase in Campus recruiting.*



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Office of Audit Comment: The test described in management’s response was not completed at the time we conducted our fieldwork. As such, we did not assess the results of the test to evaluate whether it was an adequate indicator of the capacity of the system. We reported the issue to ensure HCO officials were aware of the problems encountered by other large Federal Government agencies with QuickHire[®]. If the system fails to perform adequately, we believe the risks are heightened at the IRS because of the significant reductions in human resource support staff.

Management’s Response: *We believe the methodology TIGTA used to determine return on investment for CareerConnector is flawed and plan to conduct a workload analysis once CareerConnector is fully deployed. The analysis will consider the impact of CareerConnector, new hiring strategies, and evolving customer hiring needs such as the impact of electronic filing. We will not solely measure the value of CareerConnector in terms of costs and impact of staff resource needs. This is important because the decision to adopt an automated hiring system and the choice to use CareerConnector were not driven by cost savings. Rather, IRS leadership directed the Human Resources functions to obtain and use a single automated system for recruitment and hiring to achieve qualitative improvements.*

Office of Audit Comment: We did not perform a cost-benefit analysis or determine the return on investment for CareerConnector. That is the responsibility of the Department of the Treasury and IRS management; a cost-benefit analysis should have been completed before the decision was made to acquire the system. We did note in our report that the limited cost savings projections IRS management was able to provide were not sufficient to indicate that the savings from CareerConnector, once it is fully implemented, will justify the cost.