

**The Small Business/Self-Employed Division  
Has Taken Actions to Reduce Costly Turnover  
Among Its Customer Service Representatives,  
but Improvement Opportunities Still Exist**

**February 2004**

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INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

February 17, 2004

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED  
DIVISION

*Gordon C. Milbourn III*

FROM: Gordon C. Milbourn III  
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Small Business/Self-Employed Division  
Has Taken Actions to Reduce Costly Turnover Among Its  
Customer Service Representatives, but Improvement  
Opportunities Still Exist (Audit # 200230043)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) Small Business/Self-Employed (SB/SE) Division Customer Account Services (CAS) Accounts Management function is effectively managing Customer Service Representative (CSR) turnover at its toll-free call centers. The SB/SE Division CAS Accounts Management function employs nearly 4,400 CSRs<sup>1</sup> at 5 campus<sup>2</sup> call centers and 3 remote call centers.<sup>3</sup> From October 2002 through April 2003, these CSRs answered almost 4.2 million taxpayer calls.<sup>4</sup>

In summary, the IRS recognizes the value of a stable and experienced CSR workforce and has identified the CSR job series as one of its seven mission critical positions. In recent years, a number of human capital initiatives have been implemented that should collectively help to reduce CSR turnover. Among these, the journeyman<sup>5</sup> grade level for

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<sup>1</sup> Employment data obtained from the IRS Workforce Information Reports for the pay period ending September 20, 2003.

<sup>2</sup> A campus is an IRS location that houses customer service, compliance, and returns processing functions.

<sup>3</sup> The SB/SE Division campus call centers are located in Cincinnati, Ohio; Holtsville, New York; Memphis, Tennessee; Ogden, Utah; and Philadelphia, Pennsylvania. The remote call centers are located in Buffalo, New York; Nashville, Tennessee; and Oakland, California.

<sup>4</sup> Call volume does not include 1.25 million Employer Identification Number (EIN) calls that were answered by EIN Tax Examiners rather than CSRs.

<sup>5</sup> Journeyman refers to the top grade level within a specific job series that an employee can achieve through noncompetitive promotions.

the CSR position was increased, a strategy to increase the ratio of permanent to seasonal positions was implemented, and a telephone assessment tool for hiring CSRs from outside the IRS was used at the remote call centers in 2003.

While such initiatives are positive steps, CSR turnover remains a significant challenge to the SB/SE Division's ability to provide effective and efficient toll-free telephone service. During Fiscal Years (FY) 2001 and 2002, the SB/SE Division CAS Accounts Management function experienced the external turnover<sup>6</sup> of 1,359 CSRs (14 percent).<sup>7</sup> A factor that significantly contributes to CSR turnover is the need to rely on seasonal employees to meet the significant telephone demand during each filing season. More than 80 percent of the external turnover of CSRs in FYs 2001 and 2002 involved seasonal employees. We estimate the direct financial costs of the external turnover among the SB/SE Division CAS Accounts Management function's CSRs were nearly \$10.7 million. Because information on the turnover of the CSRs that migrated to other jobs in the IRS (i.e., internal turnover) was not routinely tracked, the total CSR turnover is unknown. Therefore, the total CSR turnover costs for the SB/SE Division CAS Accounts Management function undoubtedly are significantly higher than \$10.7 million. Besides the direct financial costs, turnover can also result in various indirect costs such as lower productivity, poor quality, loss of experience, and lower customer satisfaction.

CSR turnover drives entry-level training costs. In FY 2002, the turnover rate for newly hired CSRs ranged from 19 percent to 28 percent at 4 of the 5 SB/SE Division CAS Accounts Management function campus call centers<sup>8</sup> and from 20 percent to 41 percent at the 3 remote call centers. Between October 1, 2002, and March 19, 2003, the SB/SE Division CAS Accounts Management function provided nearly 127,000 hours of classroom instruction to its newly hired CSRs. At a minimum, the salary cost for this entry-level training was approximately \$1.5 million. Some of the IRS managers we interviewed stated at least a 2-year training period is needed to bring a new CSR up to the full performance level. Thus, training costs are a huge investment that can be essentially lost when new CSRs stay with the IRS only a short period or do not return for another filing season.

We believe that, by implementing certain call center industry best practices, SB/SE Division management has opportunities to lower the cost to provide toll-free telephone service by reducing its CSR turnover. We recommended that the Director, CAS, SB/SE Division, and the Director, Human Resources, SB/SE Division, develop recruiting and work scheduling strategies for retaining more of the Division's seasonal CSRs; ensure applicants are a good "fit" for CSR positions by expanding the telephone assessment tool to include testing of internal candidates, developing job previews, and using supplemental assessment tools; and develop systems for tracking and analyzing both

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<sup>6</sup> External turnover refers to an employee separating from the IRS.

<sup>7</sup> In FY 2001, 737 (14 percent) of 5,434 CSRs in the SB/SE Division CAS Accounts Management function separated from the IRS. In FY 2002, 622 (14 percent) of 4,590 CSRs in the SB/SE Division CAS Accounts Management function separated from the IRS.

<sup>8</sup> The turnover rate for newly hired CSRs at the remaining campus call center, located in Ogden, Utah, was only 4 percent in FY 2002.

the causes and costs of CSR turnover. Finally, we recommended that SB/SE Division management increase its accountability for the cost of turnover by adding a corporate call center performance measure for annual CSR turnover, establishing a corporate turnover goal, and requiring call center managers to develop site-specific strategies for reducing CSR turnover.

Management's Response: The Commissioner, SB/SE Division, will request the Strategic Human Resources office to include the use of a telephone assessment tool for hiring internal CSR applicants in the upcoming midterm negotiations of the National Agreement with the National Treasury Employees Union (NTEU). The Commissioner also agreed to develop standard reports that will provide turnover information by different variables, ensure information from the SB/SE Division's exit survey is shared with campus management, and strive to modify the Separating Employee Clearance Certificate (Form 5389). The Commissioner advised that the Chief Financial Officer is implementing the Integrated Financial System, designed to meet the need for Activity-Based Costing, in April 2004. After its successful implementation, SB/SE Division management will explore securing reports to reflect the costs of turnover. While the Commissioner disagreed with our recommendation to explore renegotiating the National Agreement with the NTEU to permit the use of behavioral interviewing techniques, the Commissioner plans to explore the use of behavioral interviewing techniques in the private sector to determine its applicability to the CAS Accounts Management function.

The Commissioner, SB/SE Division, also disagreed with our recommendation to develop a recruiting strategy targeting individuals that may want only seasonal employment, stating the Survey 2003, which was available to all employees, included specific questions for seasonal employees relative to why they accepted seasonal employment. Thus, a separate survey as recommended in our report would be redundant. The Commissioner did not commit to any specific action concerning our recommendation to explore ways to increase the work hours/work season of seasonal CSRs to avert the need to furlough them for extended periods, stating ongoing practices are in place to extend the duration of seasonal employees' work seasons. However, the Commissioner added the Division would continue to explore any and all options to keep employees working longer.

The Commissioner, SB/SE Division, disagreed with our recommendation to develop a video that realistically illustrates the positive, as well as the negative, aspects of a typical day on the job as a CSR, stating that, in campus locations, most employees have worked for the IRS for many years and continuously hear about both the negative and positive aspects of different jobs within each campus segment. The Commissioner stated that, when employees from the Submission Processing and/or Compliance Services functions apply for CSR positions in the CAS Accounts Management function, they are making informed decisions.

The Commissioner, SB/SE Division, disagreed with our recommendations to add "Annual Turnover" to the corporate suite of call center performance measures, establish a corporate CSR turnover goal, and develop site-specific CSR retention strategies. The Commissioner stated there was no evidence that these actions would cause turnover to

be reduced. In addition, the Commissioner expressed concern that implementing these recommendations will place an undo burden on management, may or may not have any impact, and could have negative “unintended” consequences such as local management not dealing with performance problems in an effort to reduce turnover.

The Commissioner, SB/SE Division, did not concur with our estimate of the potential cost savings that could be realized by implementing the recommendations in this report. The Commissioner stated the report did not assign specific benefits to each recommendation, two of the recommendations are predicated upon negotiations with the NTEU, and the Division did not agree with several of the recommendations. The Commissioner stated that their research found that their current external turnover rate of 22.6 percent is below the turnover rate in comparable industry segments (e.g., Financial Services – 25 percent, Consumer Products – 26 percent, and Insurance – 24 percent) and that, in looking specifically at annual turnover of full-time inbound telephone service representatives, public entities had a 22.8 percent turnover rate while Federal Government agencies had a 26.2 percent turnover rate. However, the Commissioner stated they would continue to work to improve their 22.6 percent CSR turnover rate. Management’s complete response to the draft report is included as Appendix VI.

Office of Audit Comment: The Survey 2003 results indicated the SB/SE Division primarily hired for seasonal CSR positions individuals that merely accepted the position in anticipation of securing full-time, permanent employment with the IRS. We believe this contributes to the turnover of seasonal employees; therefore, the SB/SE Division should strive to increase its recruitment of individuals for the seasonal CSR position that are more likely to be interested in seasonal employment only. To meet this objective, the SB/SE Division needs to either expand the scope of the next annual survey or develop a new survey containing questions specifically designed to determine the traits/characteristics of the segment of the seasonal CSR workforce that returns repeatedly every filing season. This type of information would help to position the SB/SE Division to develop the appropriate recruiting/hiring strategies.

Our report acknowledged the positive actions the SB/SE Division has taken to extend the duration of seasonal CSRs’ work seasons. The work season of the seasonal CSRs has often been extended to accommodate the realignment of workloads due to the recent IRS reorganization. However, management’s ability to amend seasonal work agreements to reflect a 12-month work season expired on December 30, 2003. As a result, the work season of seasonal CSRs may not be as long as in the past. Thus, we continue to advocate that the SB/SE Division explore new ways, both within and outside the IRS, to offer its seasonal CSRs longer work hours/work seasons.

We are encouraged that the Commissioner, SB/SE Division, is willing to explore the use of behavioral interviewing techniques in the private sector to determine its applicability to the CAS Accounts Management function. We view this alternative action as an appropriate and reasonable step before considering whether our recommendation to explore renegotiating the terms of the National Agreement with the NTEU should be considered for implementation. In the interim, we continue to believe that developing a job-preview video, illustrating a typical day of a CSR, would help to improve the

effectiveness of the hiring process by maximizing the chances that the right candidates are selected to fill the job. The main reason for turnover is lack of job fit. Therefore, managing employee expectations of the job should start before employment begins. A one-time investment in a video that demonstrates the positive and negative aspects of a CSR job would enable internal and external applicants alike to better understand the expectations and demands of the job before accepting it, thereby reducing turnover costs in the long term.

We concur that the addition of “Annual Turnover” to the suite of corporate measures may not directly result in the reduction of CSR turnover. In the call center industry, however, turnover rate is a key performance indicator aggressively tracked and managed. Like the other corporate measures used by the IRS for its call center operations, the availability of an “Annual Turnover” measure would help to ensure CSR turnover receives continuous scrutiny from upper-level management. Without a corporate measure, upper-level management may not be timely alerted to unsatisfactory turnover trends that require appropriate examination of hiring and retention strategies. While some turnover is inevitable and desirable, we still believe that goals and strategies to minimize turnover would assist the SB/SE Division in reducing its costs to provide toll-free telephone services.

While we still believe all of our recommendations are worthwhile, we do not intend to elevate our disagreement concerning these matters to the Department of the Treasury for resolution.

Regarding the estimated cost savings that could be realized through the implementation of our recommendations, the SB/SE Division currently does not have a system in place to account for the costs of turnover. Therefore, to obtain an “estimate” of the SB/SE Division’s turnover costs for its newly hired CSRs, we used a common formula that yielded a cost of \$7,564 for the average cost of replacement. Using this average replacement cost figure, we computed the annual cost savings that might be achieved by reducing new hire turnover from 22.6 percent to 15 percent, to demonstrate the potential cost savings that could be realized by reducing turnover. Although we did not assign specific monetary savings for each of the recommendations in the report, we believe it is reasonable to expect that the implementation of all or some of the recommendations should reduce turnover, resulting in lower costs, since they have been successfully used throughout the call center industry. Any reduction of turnover – even by a one-percentage point variation – results in notable cost savings for an organization. While the actual annual cost savings could be more or less, depending upon the actual cost of replacement and the reduction in turnover realized, we believe our estimate was very conservative since 1 recent study of Federal Government call centers determined the average cost of replacing a CSR in a Federal Government call center was \$9,985. In addition, when compared to costs at other Federal Government call centers, the SB/SE Division’s cost to replace a CSR is likely to be higher than average due to the extensive classroom and on-the-job training required to effectively answer an array of incoming telephone calls. With such a high investment in training, the SB/SE Division suffers a significant loss when a CSR leaves, losing knowledge and

experience in complex tax subjects essential for providing quality service to small businesses and self-employed individuals.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Richard J. Dagliolo, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs), at (631) 654-6028.

**The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist**

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## The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist

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### Background

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The Internal Revenue Service's (IRS) toll-free telephone system is the contact method most taxpayers choose when seeking answers to tax law questions or trying to resolve account-related issues. The IRS employs more than 15,000 permanent and seasonal<sup>1</sup> Customer Service Representatives (CSR) at 26 call centers, located throughout the United States and Puerto Rico, to answer incoming telephone calls, as well as paper correspondence, from taxpayers. The Customer Account Services (CAS) functions within the Small Business/Self-Employed (SB/SE) Division and Wage and Investment (W&I) Division are responsible for managing the IRS toll-free telephone system.

The SB/SE Division serves 45 million taxpayers that pay \$915 billion in individual, corporate, employment, and excise taxes. These customers include about 33 million fully or partially self-employed individuals and 7 million small business entities (including corporations and partnerships) with assets of \$10 million or fewer. The SB/SE Division CAS Accounts Management function employs nearly 4,400 CSRs<sup>2</sup> at 5 campus<sup>3</sup> call centers and 3 remote call centers.<sup>4</sup> From October 2002 through April 2003, the CSRs at these 8 sites answered almost 4.2 million<sup>5</sup> taxpayer calls.

Throughout the call center industry, CSR turnover is a chronic problem and a critical cost driver, resulting in direct

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<sup>1</sup> Seasonal employment involves annually recurring periods of employment totaling less than 12 months in a calendar year.

<sup>2</sup> Employment data obtained from the IRS Workforce Information Reports for the pay period ending September 20, 2003.

<sup>3</sup> A campus is an IRS location that houses customer service, compliance, and returns processing functions.

<sup>4</sup> The number of SB/SE Division call centers was reduced from 13 to 8 in October 2002 in an effort to balance the workload between the 2 business operating divisions. The SB/SE Division campus call centers are located in Cincinnati, Ohio; Holtsville, New York; Memphis, Tennessee; Ogden, Utah; and Philadelphia, Pennsylvania. The remote call centers are located in Buffalo, New York; Nashville, Tennessee; and Oakland, California.

<sup>5</sup> Call volume does not include 1.25 million Employer Identification Number (EIN) calls that were answered by EIN Tax Examiners rather than CSRs.

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costs associated with recruiting, hiring, and training replacements. Turnover can also result in indirect costs such as lower productivity, lower quality, and lower customer satisfaction. Call center managers throughout the industry maintain that the biggest challenge in operating a call center is “*retaining great customer service agents*” or, in other words, “*minimizing telephone agent turnover.*”<sup>6</sup>

To perform this audit, we reviewed IRS records<sup>7</sup> of CSR turnover in the SB/SE Division and interviewed managers at the SB/SE Division call centers located at three campus sites (Cincinnati, Ohio; Holtsville, New York; and Ogden, Utah) and one remote site (Buffalo, New York). To identify industry best practices for managing CSR turnover, we reviewed numerous books, publications, and Internet articles; interviewed consultants; and visited the Social Security Administration (SSA) in Baltimore, Maryland. The audit was performed between October 2002 and April 2003 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.

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### Management Has Taken Actions to Minimize Customer Service Representative Turnover

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The turnover of CSRs in call centers varies significantly by industry. While the IRS experiences a lower turnover rate of CSRs than some call center industries, the cost of turnover at the IRS may be much higher. In contrast to many call center industries, the IRS invests heavily in extensive training to ensure its CSRs have sufficient knowledge to answer complex tax law and account-related questions.

The IRS has demonstrated it recognizes the value of a stable and experienced CSR workforce and has identified the CSR job series,<sup>8</sup> which represents its second largest occupational group, as one of its seven mission critical positions. Management at both the corporate level and the SB/SE

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<sup>6</sup> Anton and Rockwell, pp. xi, 19. Publishing information for citations in footnotes is listed in the Bibliography (see Appendix V).

<sup>7</sup> We did not perform any independent testing to verify the accuracy of the turnover data obtained from the IRS.

<sup>8</sup> The CSRs at the IRS are classified as Contact Representatives, GS-0962 Series, under Office of Personnel Management guidelines.

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Division-level has implemented a number of human capital initiatives in recent years that should collectively help to reduce CSR turnover:

- The journeyman<sup>9</sup> level for the CSR position was upgraded by one grade level prior to the major IRS reorganization that created the SB/SE Division in October 2000.
- An SB/SE Division *Perm Hiring Strategy* was developed to increase the ratio of permanent to seasonal employees. Generally, the ratio is set at a level that would enable the permanent staff to handle 90 percent of each call center's workload based on the month with the lowest volume.
- A telephone assessment tool to test the competencies of candidates for the CSR position was piloted during the 2002 Filing Season.<sup>10</sup> The SB/SE Division CAS Accounts Management function used this tool in 2003 for hiring CSRs from outside the IRS at its three remote call centers.
- A Division-wide exit interview was implemented for employees leaving the SB/SE Division.
- Employee satisfaction surveys are administered to the SB/SE Division call center workforce on an annual basis.
- The SB/SE and W&I Divisions have established a partnership to examine retention and career progression issues affecting the major occupations at the campuses.

In addition, the SB/SE Division continues to address the turnover of the CSRs at its call centers through improved training programs and employee recognition initiatives. While no single cohesive CSR retention strategy appears to be in place for the SB/SE Division call centers, management at each of the call centers we visited had developed unique

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<sup>9</sup> Journeyman refers to the top grade level within a specific job series that an employee can achieve through noncompetitive promotions.

<sup>10</sup> The period from January through mid-April when most individual income tax returns are filed.

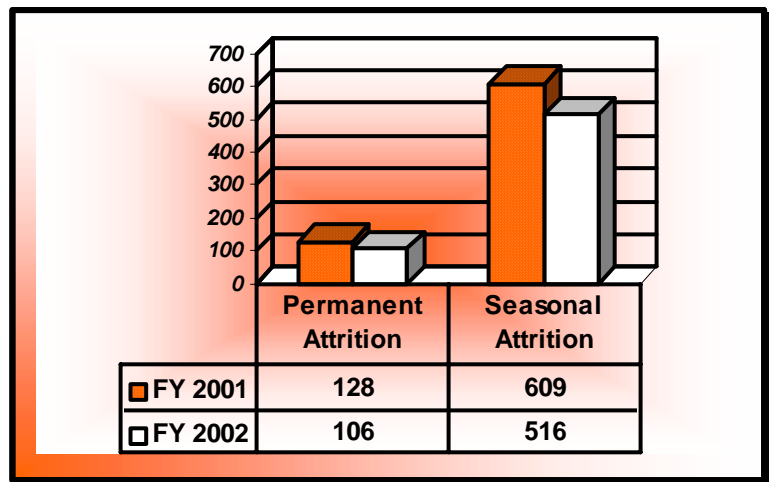
**The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist**

**Turnover Remains a Challenge to Providing Effective and Efficient Toll-Free Telephone Service**

strategies designed to improve morale and engage employees, ultimately deterring turnover.

While management has implemented a number of sound initiatives and taken positive actions to address it, CSR turnover remains a major factor that challenges the IRS’ ability to effectively and efficiently provide toll-free telephone service. For instance, the SB/SE Division CAS Accounts Management function experienced the external turnover<sup>11</sup> of 1,359 CSRs during Fiscal Years (FY) 2001 and 2002. As shown in Figure 1, more than 80 percent of this external CSR turnover involved seasonal employees.

**Figure 1: External Turnover of Permanent/Seasonal CSRs in the SB/SE Division CAS Accounts Management Function FYs 2001 and 2002<sup>12</sup>**



Source: “The State of Human Capital in SB/SE.”

While the amount of external turnover is significant, the total CSR turnover is not known since the SB/SE Division had no readily accessible data showing the number of CSRs that had migrated to other jobs within the IRS (i.e., internal turnover). When CSR turnover occurs, direct costs are incurred for hiring and training replacements. In addition, CSR turnover can result in various indirect costs such as

<sup>11</sup> External turnover refers to an employee separating from the IRS.

<sup>12</sup> These data do not include the CSRs that migrated to other positions in the IRS.

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lower productivity, poor quality, loss of experience, and lower customer satisfaction.

### **The 2-year CSR turnover costs are estimated at almost \$10.7 million**

The SB/SE Division did not have a systematic process for collecting the data necessary to precisely determine the actual cost of CSR turnover. In addition, the IRS had no data on all of the component costs of replacing a CSR.

To estimate the CSR turnover costs, we considered a variety of approaches using the following guidelines and standards from both the private and public sectors:

- The average cost of bringing on a new CSR is \$6,350 across all call center industries.<sup>13</sup>
- The United States (U.S.) Department of Labor estimates employee turnover costs at least one-third of a new hire's annual salary.
- The U.S. Merit Systems Protection Board estimates a cost of \$5,000 – \$7,000 for hiring the wrong person for an entry level, full-time position.
- A recent study<sup>14</sup> showed the average cost of bringing on a new CSR at Federal Government call centers is \$9,985.
- Many human resource experts estimate the average cost of replacing a lost employee is, at a minimum, 25 percent of the annual compensation (i.e., salary plus benefits).<sup>15</sup>

While these guidelines and standards do not assure the level of accuracy a cost accounting system would provide, they can provide an estimate of the considerable cost of CSR turnover. Using the latter approach (i.e., 25 percent of the

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<sup>13</sup> Anton and Rockwell, p. 3.

<sup>14</sup> Anton, *Government Call Centers Performance Benchmark Report*, p. 53.

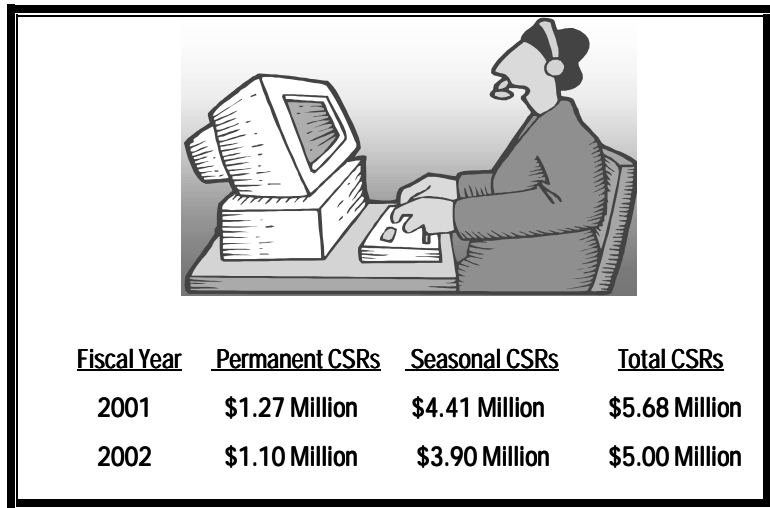
<sup>15</sup> Employment Policy Foundation, p. 2.

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annual compensation),<sup>16</sup> we estimate the SB/SE Division CAS Accounts Management function’s external turnover costs during FYs 2001 and 2002 were almost \$10.7 million.

As shown in Figure 2, these costs are principally due to the high turnover among the seasonal CSR workforce.

**Figure 2: Estimated Cost of External Turnover of CSRs in the SB/SE Division CAS Accounts Management Function**



Source: “The State of Human Capital in SB/SE.”<sup>17</sup>

Not included in these costs is the cost of internal turnover, a common occurrence at the campus call centers since employees frequently migrate to other positions within an IRS campus. Because the amount of internal turnover is not routinely tracked, the total turnover among CSRs in the SB/SE Division CAS Accounts Management function is unknown. Therefore, the actual CSR turnover costs during FYs 2001 and 2002 undoubtedly were significantly higher than \$10.7 million.

<sup>16</sup> This approach was selected because it uses a Turnover Cost Formula that easily allows any organization to quantify its cost of turnover.

<sup>17</sup> Generic Turnover Cost Formula: ((Annual Salary + Benefits) X .25) X (Number of Employees That Left the Job) = Cost of Turnover. This formula gives the average cost of replacing an employee, which when multiplied by the number of departing employees, provides the cost of turnover. Still, this formula does not capture all costs, as many are difficult to quantify.

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From this starting point, we evaluated these other factors that require consideration in CSR turnover costs:

- Seasonal and permanent CSR turnovers differ in type and costs.
- CSR entry-level training costs are considerable but unknown.
- CSR turnover is highest among new hires.

### **Seasonal and permanent CSR turnovers differ in type and costs**

To determine the extent of the migration of CSRs to other jobs, we analyzed data from the IRS payroll system for the pay periods ending October 19, 2002, through May 17, 2003.<sup>18</sup> These data showed more than two-thirds of the CSR turnover in the SB/SE Division CAS Accounts Management function was external and almost one-third was internal. Applying a turnover cost based on 25 percent of a CSR's annual compensation, we estimate seasonal CSRs were responsible for almost 75 percent of the external turnover costs and permanent CSRs were responsible for more than 70 percent of the internal turnover costs.

Based on these payroll data, we estimate the cost to replace a full-time, seasonal CSR is \$7,962 and the cost to replace a full-time, permanent CSR is \$10,923.<sup>19</sup> As expected, the cost to replace permanent CSRs is higher, since their extensive knowledge and experience make them more valuable. Thus, while the total internal turnover costs may be less than the total external turnover costs, the unit costs are higher due to the loss of what are often the most experienced and talented CSRs.

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<sup>18</sup> Data obtained from the IRS Strategic Human Resources Workforce Planning.

<sup>19</sup> Costs were determined by a commonly used human resource industry computation for average cost of replacement. In reviewing an advance copy of this report, SB/SE Division CAS management stated the replacement cost of a full-time, permanent CSR is overstated since these positions are replaced by a full-time, seasonal CSR instead of an employee with no previous training.

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### **Training costs for entry level CSRs are considerable but unknown**

Entry-level training costs are driven by CSR turnover. The IRS' cost to train a newly hired CSR has been estimated to be at least three times that of a return-to-duty employee.

We were advised the SB/SE Division had no specific information on its cost to provide entry-level CSR training because both the type and amount of training vary from call center to call center. Whereas the remote call centers generally hire external applicants with no prior IRS knowledge or experience, the campus call centers tend to hire more internal applicants with different skill sets.

What is known, however, is that the training to handle calls from self-employed taxpayers and small business taxpayers is extensive because of the tax law complexity. Therefore, training is likely a much more significant cost factor for the SB/SE Division CAS Accounts Management function than it would be for many other types of call center operations. Although training can vary from call center to call center, a new CSR is generally required to complete about 8 weeks of technical classroom training, receive telephone skills training, and work with an on-the-job coach for several weeks. Some of the IRS managers we interviewed stated at least a 2-year training period is needed to bring a new CSR up to the full performance level.

Between October 1, 2002, and March 19, 2003, the SB/SE Division CAS Accounts Management function provided nearly 127,000 hours of classroom instruction to its newly hired CSRs. At a minimum, the salary cost for this entry-level training was approximately \$1.5 million. These training costs are a huge investment that can be essentially lost if the new CSRs stay with the IRS for only a short period or do not return for another filing season.

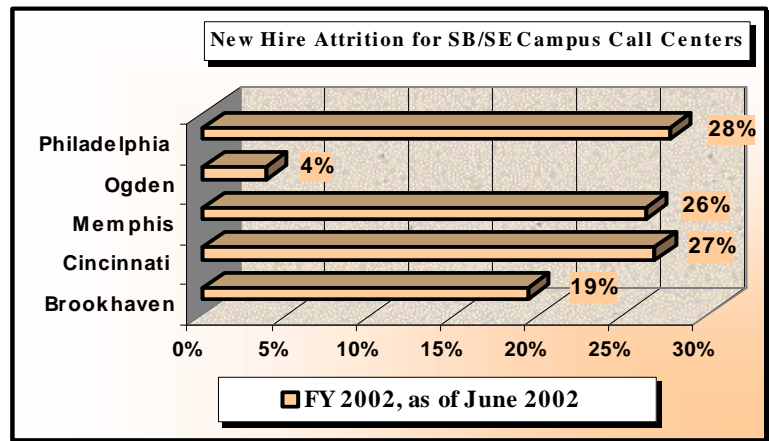


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### CSR turnover is highest among new hires

A recent General Accounting Office (GAO) report<sup>20</sup> cited that, according to human resource experts, new employees typically leave at higher rates than all other employees. Therefore, it is not surprising that the turnover in the SB/SE Division CAS Accounts Management function was relatively high among its newly hired CSRs. As shown in Figure 3, the new hire turnover rate during FY 2002 ranged from 19 percent to 28 percent at 4 of the 5 campus call centers.

**Figure 3: FY 2002 New Hire Turnover Rates at the Five SB/SE Division CAS Accounts Management Function Campus Call Centers**



Source: FY 2002 SB/SE Division Accounts Management "CSR" Recruitment/Attrition Summary W/E<sup>21</sup> June 1, 2002."

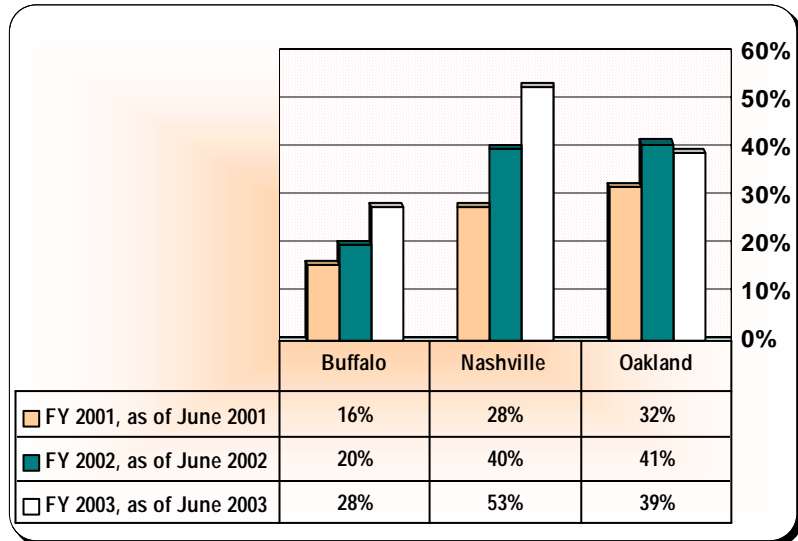
Similarly, Figure 4 shows the turnover rates among newly hired CSRs at the three SB/SE Division CAS Accounts Management function remote call centers have also been relatively high and generally increasing.

<sup>20</sup> Veterans Benefits Administration: Better Collection and Analysis of Turnover Data Needed to Enhance Workforce Planning (GAO-03-491, dated April 2003).

<sup>21</sup> W/E represents "Week Ending."

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**Figure 4: FY 2001 – FY 2003 New Hire Turnover Rates at the Three SB/SE Division CAS Accounts Management Function Remote Call Centers**



Source: *The SB/SE Division Accounts Management Hiring and Attrition Summary.*

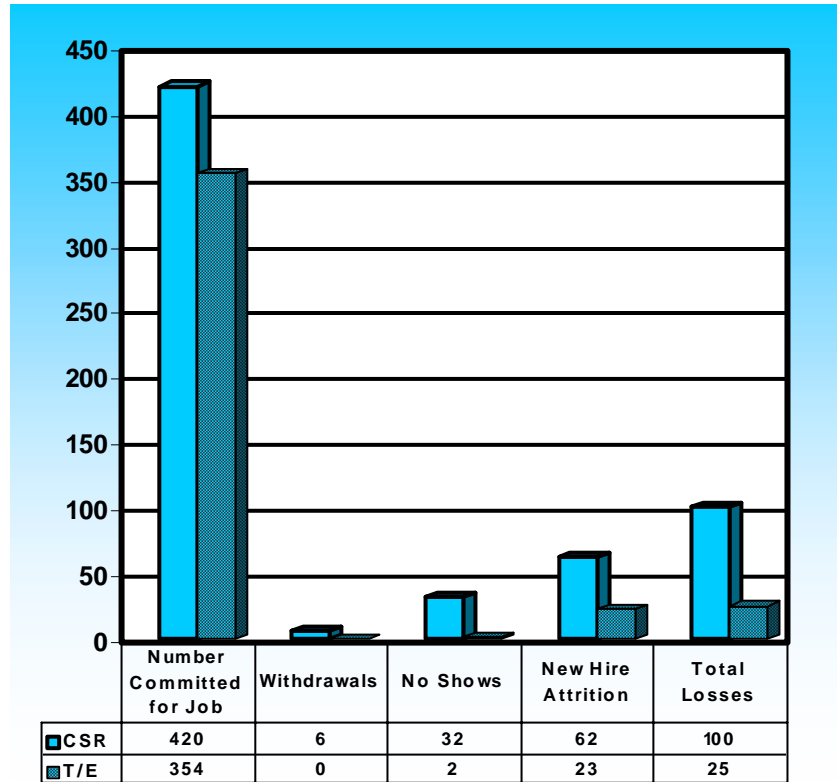
The high turnover rate at the remote call centers may be attributable to the different work demands. At the campus call centers, CSRs frequently work taxpayer correspondence and amended returns in addition to taking incoming calls from taxpayers. At the remote call centers, CSRs spend a greater portion of their work time on the telephone since no other work is available.

During the 2003 Filing Season, the SB/SE Division CAS Accounts Management function tracked the turnover of its newly hired CSRs by comparing it to the number that had committed<sup>22</sup> to accept CSR jobs for the filing season. Figure 5 shows that, as of February 22, 2003, 100 (23.8 percent) of the 420 seasonal new hires that committed for CSR positions during the 2003 Filing Season subsequently had withdrawn from pursuing the CSR position, had failed to report for duty, or had already separated after starting training or work as a CSR.

<sup>22</sup> A commitment means the IRS had sent the person a letter with a reporting date as a new CSR.

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**Figure 5: New Hire Turnover by Individuals Committed for the CSR or Tax Examiner<sup>23</sup> Jobs During the 2003 Filing Season**



Source: FY 2003 SB/SE Division CAS Accounts Management Hiring and Attrition Summary, as of February 22, 2003.

Figure 5 also shows the turnover rate among newly hired CSRs (23.8 percent) was considerably higher than that for newly hired Tax Examiners (7.1 percent) during the same time period. The Tax Examiner position is located only at the campus sites, whereas the CSR position exists at both the campus and remote sites. At the campus call centers, management can select applicants from other areas, such as the Submission Processing or Compliance functions, and/or from outside the IRS. In contrast, management does not have this option at the remote call centers and, instead, must hire all applicants from outside the IRS. Thus, the higher turnover rate for the CSRs is perhaps attributable not only to

<sup>23</sup> Tax Examiners handle paper workload that includes notices, taxpayer correspondence, amended returns, and internally generated inquiries. They are not trained to work the telephones.

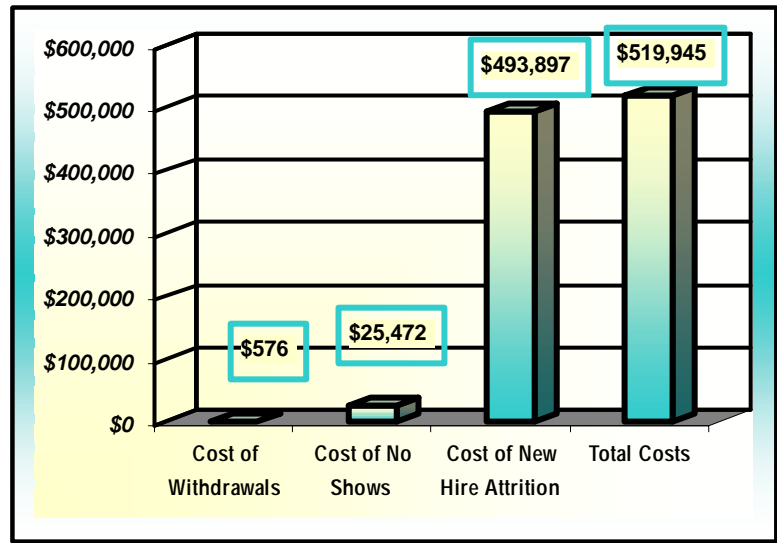
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the stress of telephone work but also to the greater number of hires from outside the IRS for the seasonal CSR position.

At our request, the IRS Agency-Wide Shared Services (AWSS) Personnel Operations function estimated that, excluding the training costs, the average cost for each CSR hired externally was \$896 and that the average cost for each CSR hired internally was \$96. Hiring individuals from outside the IRS was significantly more expensive due to advertising, testing, and screening costs.

Figure 6 shows our estimate of the SB/SE Division CAS Accounts Management function’s costs associated with the early turnover of 100 newly hired CSRs during the 2003 Filing Season.

**Figure 6: Costs of Losing Individuals Committed for CSR Positions, as of February 22, 2003**



Source: FY 2003 SB/SE Division CAS Accounts Management Hiring and Attrition Summary/AWSS-Personnel Operations/Advantage Hiring Web Site.

There are four broad areas in which we believe SB/SE Division management has opportunities to take further action to lower the cost of providing toll-free telephone service by reducing the Division’s CSR turnover:

- Developing recruiting and work scheduling strategies for retaining more of the Division’s seasonal CSRs.

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- Expanding upon ongoing efforts to improve the applicant screening process to more effectively ensure that new hires are a good “fit” for the CSR position.
- Improving the tracking and analysis of the causes and costs of CSR turnover.
- Increasing management accountability for reducing CSR turnover.

The remainder of this report discusses these areas and includes our specific recommendations for management’s consideration. The implementation of our recommendations should reduce CSR turnover, resulting in cost savings. Based on an estimated cost of \$7,564 for losing a newly hired CSR during the 2002 Filing Season, reducing the new hire CSR turnover to 15 percent would render an annual cost savings of approximately \$650,000.<sup>24</sup>

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### **Recruiting and Work Scheduling Strategies Are Needed to Increase the Retention of the Seasonal Workforce**

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Assembling a sufficient workforce to meet the demand for service by small business and self-employed customers each filing season is very important. During the filing season, the IRS generally handles as many calls as it does during the rest of the year combined. Like the IRS as a whole, the SB/SE Division CAS Accounts Management function’s workload, both telephone and paper, is cyclical in nature. Therefore, both permanent and seasonal employees are required to meet the demand for service.

The SB/SE Division CAS Accounts Management function’s focus on managing its CSR workforce is on filing season readiness. During their annual filing season readiness planning, the SB/SE Division’s call center managers determine how many resources they need to meet the projected call volume and the service goals/measures. In August and September, the managers send letters to the seasonal CSRs that have been furloughed<sup>25</sup> to determine whether they will return for the next filing season. Based on

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<sup>24</sup> Appendix IV shows the methodology for calculating these estimated cost savings.

<sup>25</sup> A furlough is the placing of an employee in a temporary nonduty, nonpay status because of lack of work or funds or for other nondisciplinary reasons.

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the number of seasonal CSRs that indicate they will return, the call center managers calculate the number of additional CSRs they will need for the filing season and notify their local servicing personnel function of the number of CSRs that need to be hired.

The IRS hires seasonal CSRs with a promise of only a few months of work and a possibility that they may be converted to permanent status at a later date.<sup>26</sup> According to a report by the U.S. Merit Systems Protection Board,<sup>27</sup> these seasonal jobs have proven difficult to recruit for in some instances and, in some cases, a shortage of applicants has prompted the IRS to hire almost anyone who passes the written test and the background check.

Table 1 illustrates the SB/SE Division CAS Accounts Management function’s heavy reliance (i.e., over 40 percent) on seasonal help to meet the anticipated demands of the 2003 Filing Season.

**Table 1: CSR Staffing Employed on January 11, 2003, SB/SE Division CAS Accounts Management Function**

<b>Call Center</b>	<b>Full-Time</b>	<b>Seasonal</b>	<b>Other</b>
Brookhaven	594	412	46
Cincinnati	307	296	4
Memphis	536	287	10
Ogden	539	440	33
Philadelphia	<u>526</u>	<u>513</u>	<u>8</u>
Total	2,502	1,948	101

*Source: Treasury Integrated Management Information System Management Information Reports, available on the IRS Intranet Research Center under IRS Resources.*

The SB/SE Division CAS Accounts Management function’s reliance on a seasonal workforce makes turnover more likely and managing the toll-free telephone operation more difficult. As previously discussed, more than 80 percent of

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<sup>26</sup> All permanent CSR jobs are filled from the seasonal CSR workforce.

<sup>27</sup> U.S. Merit Systems Protection Board, *Competing for Federal Jobs: Job Search Experiences of New Hires*, p. 13.

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the CSRs that were lost to external turnover in FYs 2001 and 2002 were seasonal employees. The following provides specific examples of the differences in turnover among seasonal and permanent CSRs:

- Analysis of the IRS payroll data for October 2002 through May 2003 showed seasonal CSRs comprised 41 percent of the CSR workforce, yet they accounted for two-thirds of the CSR turnover and almost 60 percent of the turnover costs. Eighty-two percent of the turnover by seasonal CSRs was external.
- Managers at 1 of the remote call centers stated their external turnover rate in FY 2001 was 8 percent for permanent CSRs and 24 percent for seasonal CSRs.
- Managers at a second remote call center reported their external turnover rate in FY 2002 was 5 to 15 percent for permanent CSRs and 25 to 30 percent for seasonal CSRs.
- Managers at 1 of the campus call centers reported their external turnover rate was 16 percent for permanent CSRs and 32 percent for seasonal CSRs.

The IRS' experience with the frequent turnover of its seasonal CSRs mirrors that of the entire call center industry. Therefore, with such a large dependence on a seasonal workforce, high turnover is not unexpected. While some seasonal employees are college students or retirees that are interested only in temporary employment, seasonal employees that are looking for full-time employment will often leave, or not return for the following filing season, if they do not secure a permanent job with the IRS. Turnover among seasonal employees is especially high in areas with high costs of living. The SB/SE Division, as does the IRS in general, has many call centers located in or near major metropolitan areas with high costs of living. Turnover among seasonal employees is also high when the employee is given less than a full-time schedule, requiring high scheduling flexibility.

Past internal studies have pointed to the IRS' heavy reliance on seasonal employees as a significant factor in CSR turnover and certain productivity measures:

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- The IRS Office of Performance Evaluation and Risk Analysis (OPERA) examined<sup>28</sup> the links between personnel actions and turnover and the patterns of migration from job to job for both competitive and noncompetitive assignments. While the primary concern of this study was not with the turnover of the CSRs, many of the findings are relevant.

The study found the majority of hiring actions were for seasonal employees to meet filing season demands and to fill vacancies caused by the turnover of seasonal employees. For example, the IRS selected 30,000 individuals to fill 20,000 seasonal positions through the third quarter of FY 2002.

The study also found that, during FYs 2001 and 2002, there were almost 24,000<sup>29</sup> employee migrations into and out of the CSR job series. These inflows and outflows represented changes in job series only and did not represent hiring and turnover. The study identified two types of “bad” migration – job hopping and cycling. Cycling is defined as changing job series, staying in the new job series less than a year, and then returning to the old job series. Based on observations shared with us by some call center managers, cycling may be a problem with the seasonal CSR position.

- The W&I Division, which has call centers located throughout the country to answer telephone inquiries from individual taxpayers, examined the staffing patterns at both the SB/SE and W&I Division call centers for FY 2001. The study showed new hires comprised almost 20 percent of the CSR workforce at the call centers and seasonal employees made up over 40 percent of the workforce. The study also showed that, overall, the external turnover was 19.7 percent for campus call centers and 28.4 percent for remote call centers.

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<sup>28</sup> The study was performed as a result of former IRS Commissioner Charles O. Rossotti’s concern about the high number of personnel actions for bargaining unit employees.

<sup>29</sup> Total includes both SB/SE and W&I Division employees.



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The study also analyzed two measures of call center productivity (Calls Per Hour<sup>30</sup> and Average Handle Time<sup>31</sup>) and found the higher the percentage of permanent employees and the lower the percentage of seasonal employees, the higher the productivity.

### **The SB/SE Division has implemented a *Perm Hiring Strategy***

As a result of the IRS reorganization into business operating divisions in 2000 and the subsequent realignment of work, the SB/SE Division CAS workload was expected to become more level and, in turn, able to support a higher number of permanent positions. In March 2001, the former IRS Commissioner approved the implementation of an *SB/SE Perm Hiring Strategy* to increase the ratio of permanent to seasonal employees<sup>32</sup> at the SB/SE Division CAS Accounts Management sites. In FY 2003, the CAS Accounts Management function received approval to hire 272 permanent employees.

The transition of work between the new operating divisions has resulted in the IRS' historical workload data being ineffective for determining the appropriate staffing levels. Therefore, the Office of Personnel Management has authorized the IRS to permit seasonal employees to work beyond the time periods in their seasonal work agreements through December 30, 2003. As a result, the IRS is currently permitted to have seasonal employees work in the same seasonal position for 12 consecutive months without converting the position to a permanent position. Prior to this authorization, seasonal employment was defined as annually recurring periods of work of less than 12 months a year.

While the *SB/SE Perm Hiring Strategy* should allow for a higher ratio of permanent to seasonal CSRs, the SB/SE Division CAS function will continue to rely on seasonal

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<sup>30</sup> The average number of calls a CSR handles per hour.

<sup>31</sup> The average of the sum of the CSR's talk time and after-call work time per call.

<sup>32</sup> Seasonal employees may work full-time, part-time, or unscheduled work schedules and may periodically be placed in nonpay status.

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employees to supplement its workforce to meet its workload demands.

### Recommendations

To increase the retention of seasonal CSRs, the Director, CAS, SB/SE Division, and the Director, Human Resources, SB/SE Division, should coordinate to:

1. Develop a recruiting strategy that targets individuals that may want only seasonal employment. This could be accomplished by surveying experienced seasonal CSRs to identify the reasons they elect to return each filing season. While some seasonal employees continue employment as a potential path to securing permanent positions, only 14.3 percent of the seasonal employees that stayed with the IRS from 1997 to 2001 had converted to permanent positions.<sup>33</sup> Personnel specialists indicate one reason some individuals prefer a seasonal work schedule is to supplement their Social Security benefits and/or obtain health care insurance.

Management's Response: The Commissioner, SB/SE Division, stated Survey 2003, which was available to all employees, included specific questions for seasonal employees relative to why they accepted seasonal employment; thus, a separate survey as recommended in the report would be redundant. The Commissioner added that the Survey 2003 results indicated a majority of seasonal employees return to obtain full-time, permanent employment. The Commissioner did not believe a survey of seasonal employees will provide meaningful data since the Division has found a majority of CSRs leave for higher-graded positions or lower-graded permanent positions.

The Commissioner, SB/SE Division, also stated that a *Perm Hiring Strategy* has been developed to analyze permanent staffing needs at least annually to determine

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<sup>33</sup> IRS study, *Whatever Happened to the Class of '97?*, which tracked the job path of 10,790 individuals hired between April 1996 and April 1997 for seasonal positions at 10 Submission Processing centers.

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if the ratio of permanent to seasonal employees should be increased. The ratio will be set at a level that would enable the permanent staff to handle 90 percent of each call center's workload based on the month with the lowest volume. The Commissioner contended this strategy would enable the SB/SE Division to retain the skills of its experienced CSRs.

The Commissioner, SB/SE Division, did not concur with our estimate of the potential cost savings that could be realized because the report did not assign specific benefits to each recommendation, two of the recommendations are predicated upon negotiations with the National Treasury Employees Union (NTEU), and the Division did not agree with several of the recommendations. The Commissioner also stated their research found that their current external turnover rate of 22.6 percent is below the turnover rate in comparable industry segments (e.g., Financial Services – 25 percent, Consumer Products – 26 percent, and Insurance – 24 percent) and that, in looking specifically at annual turnover of full-time inbound telephone service representatives, public entities had a 22.8 percent turnover rate while Federal Government agencies had a 26.2 percent turnover rate. However, the Commissioner stated they would continue to work to improve their 22.6 percent CSR turnover rate.

Office of Audit Comment: This report acknowledged the implementation of the *Perm Hiring Strategy*, which should increase the ratio of permanent to seasonal employees. In addition, this report recognized the extended duration of the work seasons for seasonal CSRs. However, these actions will not negate the SB/SE Division's continuing need for a seasonal CSR workforce to meet the demands of each filing season. Further, seasonal CSRs will still be subject to furlough periodically.

With regard to Survey 2003, the results were clear that the SB/SE Division is primarily hiring for seasonal CSR positions individuals that merely accept the position in anticipation of securing full-time, permanent

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employment with the IRS. We believe this contributes to the turnover of seasonal employees. Often, these seasonal CSRs are successful in either obtaining a full-time, permanent CSR job or, just as likely, finding another full-time, permanent job elsewhere in the IRS. These losses do not include those individuals that quit the seasonal CSR position for another position in the private sector. Thus, the SB/SE Division is continually expending funds on the hiring and training of new individuals – whether internal or external – to fill the ranks of the seasonal CSR workforce every filing season.

We continue to believe the SB/SE Division should strive to increase its recruitment of individuals for seasonal CSR positions to those that are more likely to be interested in seasonal employment only. To meet this objective, the SB/SE Division needs to either expand the scope of the next annual survey or develop a new survey containing questions specifically designed to determine the traits/characteristics of the segment of the seasonal CSR workforce that returns repeatedly every filing season. This type of information would help to position the SB/SE Division to develop the appropriate recruiting/hiring strategies. In the future, increasing the segment of the seasonal CSR population that is satisfied with seasonal work may be even more critical because the IRS campus locations will have less flexibility in extending the work seasons of seasonal CSRs due to the closure of some Submission Processing sites.

The SB/SE Division currently does not have a system in place to account for the costs of turnover. Therefore, to obtain an “estimate” of the SB/SE Division’s cost of turnover for its newly hired CSRs, we used a common formula that yielded a cost of \$7,564 for the average cost of replacement. Using this average replacement cost figure, we computed the annual cost savings that might be achieved by reducing new hire turnover from 22.6 percent to 15 percent, to demonstrate the potential cost savings that could be realized by reducing turnover. Although we did not assign specific monetary savings for each of the recommendations in the report, we

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believe it is reasonable to expect that the implementation of all or some of the recommendations should reduce turnover, resulting in lower costs, since they have been successfully used throughout the call center industry. Any reduction of turnover – even by a one-percentage point variation – results in notable cost savings for an organization.

While the actual annual cost savings could be more or less than estimated, depending upon the actual cost of replacement and the reduction in turnover realized, we believe our estimate was very conservative since 1 recent study of Federal Government call centers determined the average cost of replacing a CSR in a Federal Government call center was \$9,985. In addition, when compared to costs at other Federal Government call centers, the SB/SE Division's cost to replace a CSR is likely to be higher than average due to the extensive classroom and on-the-job training required to effectively answer an array of incoming telephone calls. With such a high investment in training, the SB/SE Division suffers a significant loss when a CSR leaves, losing knowledge and experience in complex tax subjects essential for providing quality service to small businesses and self-employed individuals.

2. Explore ways to increase the work hours/work season of seasonal CSRs to avert the need to furlough them for extended periods. Approaches that have been successfully used throughout the call center industry include providing filler work (e.g., email inquiries) during telephone lag times; “staff-sharing” with other Federal Government agencies or private call centers as a means to cost-effectively manage seasonal workload peaks and valleys and perhaps lengthen the work season for the seasonal workforce;<sup>34</sup> offering split shifts, part-time shifts, or mixed tours of duty to attract individuals such as college students requiring flexible

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<sup>34</sup> The IRS' former Pacific Northwest District piloted a concept with Eddie Bauer, Inc. The IRS CSRs answered taxpayer questions during the filing season and took telephone orders during Eddie Bauer's peak Christmas season.

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scheduling; and establishing work-study programs with local colleges that would provide education credits for the CSR training and on-the-job experience.

Management's Response: The Commissioner, SB/SE Division, stated that CSRs in the Accounts Management function generally work longer seasons than other seasonal employees in the CAS function and that ongoing practices are in place to extend the duration of seasonal employees' work seasons. The Commissioner noted several measures have been taken to provide as much work time for seasonal employees as permitted within resource allocation and workload demands. For example, training is arranged to coincide with times during which call demand is not as high. Also, "paper" is used to balance the workload. In addition, if a campus is planning to release seasonal employees, the Directors work together to determine if work is available in other campus components. The Commissioner added there is an arrangement with the Federal Emergency Management Agency (FEMA) so that, in case of natural disasters, seasonal employees can be provided to answer FEMA calls. Job sharing with both the private sector and other Government agencies has been explored in the past and found to be unworkable. Now, it is further unworkable due to the short release periods experienced by CSRs.

The Commissioner believes the measures already taken are the most cost-efficient and beneficial to the organization and its employees. However, the Division will continue to explore any and all options to keep employees working longer.

Office of Audit Comment: This report acknowledged the positive actions the SB/SE Division has taken to extend the duration of seasonal CSRs' work seasons. However, some of the key initiatives, such as using CSRs in the Submission Processing function, are primarily applicable to the campus locations. In the future, though, some campus locations may be more constrained in shifting CSRs to other work areas due to the closure of Submission Processing sites. Still, the

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campus sites can continue to use “paper” to balance the workload. However, management at the remote call sites has fewer options for increasing the work hours/work seasons of their CSRs.

The work season of the seasonal CSRs has often been extended to accommodate the realignment of workloads due to the recent IRS reorganization. However, management’s ability to amend seasonal work agreements to reflect a 12-month work season expired on December 30, 2003. As a result, the work season of seasonal CSRs may not be as long as in the past. The longer the furlough, the less likely it is that a seasonal CSR will return for the next filing season. In these instances, management will have to hire replacement CSRs, thus incurring more costs. For these reasons, we continue to encourage the SB/SE Division to explore new ways, both within and outside the IRS, to offer its seasonal CSRs longer work hours/work season.

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### **Additional Improvements to the Screening and Hiring Processes Could Further Reduce Turnover**

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With turnover being one of the greatest challenges for call centers, it is crucial to hire CSRs with the right attitude and right commitment for what is a very difficult job. A national survey<sup>35</sup> of executives identified lack of job “fit” as the main reason for turnover. According to a recent study by Manchester, Inc., more careful selection in the hiring of front-line employees results in reducing turnover by 57 percent.<sup>36</sup>

As previously discussed in this report, it is extremely costly for the SB/SE Division CAS Accounts Management function to recruit, hire, and train employees that are unable or unwilling to perform the duties of the position for which they were hired. Therefore, improving the selection process for hiring the CSRs may be management’s most powerful weapon against costly turnover.

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<sup>35</sup> National survey of executives conducted by Caliper, a psychological testing and human resources consulting firm.

<sup>36</sup> Hauenstein, “How Do I Reduce Turnover? Let Me Count the Ways,” p. 3.

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### **A new Telephone Assessment Program (TAP) is being used in testing external CSR applicants**

All external candidates for CSR positions at the IRS are required to take a written civil service test. Historically, the call center group managers have then interviewed and selected from those candidates that achieved a passing grade on the test.

To relieve the administrative burden of interviewing CSR candidates, improve its ability to select individuals suitable for the CSR position, and reduce turnover, the IRS searched for a selection tool. In May 2001, the IRS awarded a contract to a private-sector vendor to design and develop the customized TAP. With the TAP, external candidates still take the written civil service test. However, in lieu of the traditional interview by the call center managers, the TAP is used to test candidates through live telephone role-play simulation on a variety of critical job-related skills for the CSR position.<sup>37</sup> Assessors from the contractor evaluate and score the candidates' handling of the simulated calls. The scores are adjusted to meet the call center's hiring goals for the filing season. A candidate who passes the telephone assessment can then be selected for a CSR position.

The IRS piloted the TAP at 6 remote call centers<sup>38</sup> during the 2002 Filing Season. The new-hire retention rate at these 6 call centers, through March 23, 2002, was 85 percent. By comparison, the new-hire retention rate was 74 percent at the control call centers that did not use the TAP. The IRS concluded the TAP enabled it to select higher-quality employees, as well as employees that remain with the IRS longer than those hired through traditional methods.

The SB/SE Division CAS Accounts Management function used the TAP for hiring seasonal CSRs at its remote call centers in FY 2003. In FY 2003, the IRS Strategic Human

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<sup>37</sup> The TAP assesses a candidate's skill in organizing information, problem solving, interpersonal relations, speaking, listening, and customer service.

<sup>38</sup> In addition to the six call sites (five W&I Division sites and one SB/SE Division site) where the TAP was tested, the pilot included seven "control" call sites where the TAP was not used.



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Resources office planned to determine whether a correlation exists between the TAP and the on-the-job performance of the CSRs.

### **The TAP should also be used for testing internal applicants for CSR positions**

To date, the TAP has been administered only to “external” candidates (i.e., from outside the IRS) for CSR positions. These external candidates take a written examination and their test scores are rated and ranked. Those deemed as Best Qualified are placed on a Certificate of Eligibility and subsequently scheduled for TAP testing.

Whereas the three SB/SE Division CAS Accounts Management function remote call centers hire *only* external candidates for seasonal CSR positions, the five SB/SE Division CAS Accounts Management function campus call centers primarily hire “internal” candidates. External candidates are solicited at the campus call centers only if the number of internal applicants is insufficient to meet the seasonal CSR hiring goal. The SB/SE Division CAS Accounts Management function anticipates using the TAP in hiring external candidates, if any are needed, at its campus call centers for the 2004 Filing Season.

Due to provisions in the IRS’ existing contract with the NTEU on hiring internal candidates, the SB/SE Division CAS Accounts Management function currently has no plans to use the TAP in selecting internal candidates for CSR positions at its campus call centers. Unlike external candidates, internal candidates do not take a written test and, generally, are not interviewed. When considering internal candidates for CSR positions, the IRS reviews each candidate’s experience, training, performance appraisal, and awards to determine a score that is used for compiling a list of the Best Qualified candidates. Essentially, the internal candidates are evaluated on their past IRS job performance that may not demand the same skills as those required of a CSR. This increases the risk of poor selection decisions that can result in low performance, high turnover, and nonrecoverable hiring and training costs.

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Use of the TAP in the hiring process for internal candidates would provide a realistic preview of the CSR position and, thereby, potentially curtail some of the early turnover. Internal candidates generally have only the vacancy announcement and the written job description as a basis for deciding whether to pursue a CSR position. In some instances, internal hires find the CSR job is not the job they envisioned. Internal candidates that do not succeed at the CSR position have options to return to their prior position or accept a reassignment to another position. Recently, the OPERA identified cycling as undesirable turnover. Cycling, which accounts for 10 percent of all IRS migrations, commonly occurs at the campus call centers.

### **Including other assessment tools in the applicant screening process could result in better performing CSRs and further reduce CSR turnover**

Any assessment tool, even an apparently successful one such as the TAP, is subject to errors. No single assessment tool is 100 percent reliable in measuring job-relevant characteristics and/or predicting on-the-job performance. While assessment tools may effectively predict future performance, they cannot guarantee it.

#### ***Multiple hurdles approach***

Because a single assessment tool may provide a limited view of an applicant's qualifications, some employers in the call center industry use a "multiple hurdles" approach to improve the odds of picking a good performer from the pool of candidates. For example, Allstate uses a multilevel recruiting/hiring process at each of its four major call centers. Since implementing this selection process, Allstate has seen over 90 percent of its trainees make it – and succeed – on the telephones.<sup>39</sup> Its agent selection process consists of a:

- Telephone interview.
- Web-based employment test developed for call center agents.

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<sup>39</sup> Levin, p. 1.

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- Face-to-face interview.
- Tour of a call center with a chance to sit in with an agent and ask questions.

Cigna Healthcare's use of the following screening techniques reduced its hiring time, costs, and turnover among trainees and new agents:<sup>40</sup>

- A call center assessment process is administered to determine if applicants meet the center's criteria for scheduling availability.
- Applicants are provided with written materials that explain key aspects of the job.
- Customized call-simulation software is used to present realistic call transactions in which job candidates play the role of an agent.
- A personal interview is conducted.

### *Shadowing*

To screen out those that will not meet the high standards of customer service and may not stay the length of time necessary to recover the hiring and training costs, some companies have applicants spend a full day or two in the call center shadowing other agents before they continue the interview process.

### *Behavior-based interviews*

The SSA has successfully used behavior-based interviews at two call centers to eliminate applicants that may not be a good "fit" for customer service positions. A manager, an agent, and a union representative administer the interview. Since the implementation of these interviews, the SSA has not had to release any customer service agents during the 1-year probation period due to poor performance. However, under the IRS' current agreement with the NTEU, behavioral interview techniques may not be used for bargaining unit vacancies.

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<sup>40</sup> Levin, p. 1.

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### Recommendations

To expand upon the improved CSR selection process being experienced with the TAP, the Director, CAS, SB/SE Division, should, upon completion of the 2003 validity study of the TAP:

3. Request that the Deputy Director, Strategic Human Resources, seek to renegotiate the terms of the National Agreement with the NTEU to allow IRS management to use the TAP as a selection tool for the hiring of internal CSR applicants at its toll-free call centers. Adding the TAP to the internal hiring process should assist the IRS in selecting suitable applicants, assist the applicants in making more-informed decisions when accepting the CSR job, and, in turn, reduce cycling.

Management's Response: The Commissioner, SB/SE Division, will request that the Strategic Human Resources office include the use of TAP assessments for internal hiring in the upcoming midterm negotiations of the National Agreement with the NTEU.

4. Develop a video that realistically illustrates the positive, as well as the negative, aspects of a typical day on the job as a CSR. In particular, the availability of a video would assist internal applicants, who do not participate in the TAP screening process, in making more-informed decisions about their own suitability for a CSR position.

Management's Response: The Commissioner, SB/SE Division, stated that, in campus locations, most employees have worked for the IRS for many years and have friends that work in the Submission Processing, Accounts Management, and Compliance Services functions. Through this network, employees continuously hear about both the negative and positive aspects of different jobs within each campus segment. Therefore, when employees from the Submission Processing and/or Compliance Services functions apply for CSR positions in the CAS Accounts Management function, they are making informed decisions. Additionally, the Commissioner stated the report did not provide compelling evidence that attrition was lower for

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applicants that had viewed videos from prospective employers.

Office of Audit Comment: We continue to believe that developing a job-preview video, illustrating a typical day of a CSR, would improve the effectiveness of the hiring process by maximizing the chances that the right candidates are selected to fill the job. Three of the eight SB/SE Division call sites are remote sites that primarily hire applicants from outside the IRS. These applicants would generally have no knowledge of the day-to-day operations of a call site prior to accepting the CSR job. The main reason for turnover is lack of job fit. To avoid costly turnover as experienced by the SB/SE Division, managing employees' expectations of a job should start before employment. A one-time investment in a video that demonstrates the positive and negative aspects of a CSR job would enable internal and external applicants alike to better understand the expectations and demands of the job before accepting it, thereby reducing turnover cost in the long term.

5. Explore renegotiating the terms of the National Agreement with the NTEU to permit IRS management to use behavioral interview techniques for bargaining unit vacancies.

Management's Response: The Commissioner, SB/SE Division, disagreed with this recommendation but does plan to explore the use of behavioral interviewing techniques in the private sector to determine its applicability to the CAS Accounts Management function.

Office of Audit Comment: We are encouraged that the Commissioner, SB/SE Division, is willing to explore the use of behavioral interviewing techniques. We view this alternative action as an appropriate and reasonable step before considering whether our recommendation to explore renegotiating the terms of the National Agreement with the NTEU should be considered for implementation.

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### **Better Data Are Needed to Reliably Determine the Extent, Causes, and Costs of Turnover**

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Effective retention policies result from data collection, data analysis, and strategies designed to address the causes of turnover.<sup>41</sup> An organization needs to track turnover so it can build a history that is useful for identifying trends. With a turnover history, management is alerted when there are turnover problems and, if necessary, can take actions to resolve them.

In 2001, the GAO reported<sup>42</sup> the IRS was not actively monitoring call center turnover and determining what, if any, steps were needed to address it. The GAO also found little data were being collected to determine why CSRs leave. The GAO recommended the IRS develop a system for monitoring call center turnover and for identifying its causes so appropriate strategies for dealing with it could be developed. The IRS response to the report did not comment on monitoring why employees leave or comment on using this information to strengthen the IRS' efforts to retain skilled CSRs.

### **Better tracking of the extent of CSR turnover is needed**

As discussed earlier, the SB/SE Division CAS Accounts Management function lost 1,359 CSRs to external turnover during FYs 2001 and 2002. However, the total extent of its CSR turnover was not known because the SB/SE Division had no readily accessible data showing the number of CSRs that had left to move into other jobs within the IRS.

While we determined the SB/SE Division was performing some monitoring of CSR turnover at its call centers, the data were not being consistently gathered or routinely analyzed for trends. The SB/SE Division's primary purpose for tracking CSR turnover was short term because it focused on preparing hiring goals for the next filing season.

In FY 2002, for example, each of the call centers completed a filing season readiness questionnaire that documented the historical CSR turnover for FY 2001. However, the call centers did not account for the turnover in a consistent

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<sup>41</sup> Griffeth, Hom, and Steel, pp. 150-151.

<sup>42</sup> *IRS Telephone Assistance: Opportunities to Improve Human Capital Management* (GAO-01-144, dated January 2001).

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manner, with some call centers reporting percentages and others providing actual numbers. Without a uniform accounting method, it is difficult for SB/SE Division management to compare the historical turnover of the CSRs across the call center enterprise and formulate remedial actions.

Generally, each call center has designed its own unique method for tracking CSR turnover, with no single approach prevailing. For instance, one call center tracked CSR turnover by three categories: permanent, seasonal, and new hires on probation. Another call center accounted for CSR turnover by only two categories: permanent and seasonal. A third call center maintained a record of every departing employee's work status – permanent or seasonal – but did not compute separate turnover rates for these two categories. The capturing of the CSRs' "reasons for leaving" also varied among the call centers.

Call center industry "best practices" generally recommend tracking and analyzing turnover in a number of different ways. These include turnover that is internal vs. external, voluntary vs. involuntary, and controllable vs. uncontrollable; and turnover by length of employment, by performance level, and by work shift. Armed with these data, management is better able to design long-term strategies to address the root causes of turnover.

### **A better understanding of the causes for turnover is needed**

One of the keys to reducing turnover lies in knowing why employees stay or leave their job. Before an effective retention strategy can be developed, management needs factual information that helps to pinpoint exactly what is causing the turnover. Without the knowledge of why employees leave, management is hindered in its ability to formulate effective retention policies to reduce employee turnover.

The formulation of a retention policy often begins with the acquisition of data from exit interviews. However, the SB/SE Division call centers do not administer exit interviews to the CSRs that leave for other positions within

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the IRS. In addition, the practice of giving exit interviews to the CSRs that are separating from the IRS varied among the call centers. For instance, managers at one call center interviewed departing CSRs in response to exceptionally high turnover among new hires during one filing season. Managers at another call center designed an online exit interview; however, the participation rate has been minimal, thereby rendering the results insignificant.

In December 2002, the SB/SE Division began offering an exit survey to all departing employees (i.e., those separating from the IRS as well as those leaving for a position in another IRS business operating division). Employees that merely transfer from one position to another within the SB/SE Division do not complete the exit survey. Participation by the departing employees is voluntary, and they have the option of completing a paper version of the survey or completing it online on the IRS Intranet.

One excellent design feature of the exit survey is that it captures the employee's job series. With this design feature, the SB/SE Division should be able to discern the factors that are causing the CSRs to leave their positions. Employees can add narrative comments on the printed version of the SB/SE Division's exit survey; however, the online version does not permit any narrative. Although it is more difficult to systemically compile it, the most insightful information often comes from the narrative comments added by departing employees.

To date, the exit survey participation level by employees leaving the SB/SE Division has been low. Since the inception of the exit survey, the SB/SE Division has received around 70 completed exit surveys (40 online surveys and 30 paper surveys) from 700 separating employees, a 10 percent response rate. On March 7, 2003, we were advised that only 10 of the 70 completed surveys were from the CSRs. The SB/SE Division estimates another 6 months to a year must pass before a sufficient volume of exit surveys can be secured to perform a reliable analysis of the factors causing employees to leave the Division.

The SB/SE Division plans to work in partnership with the IRS Communications function to develop alternative



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methods of alerting employees about the exit survey. To ensure transferring employees are informed of the voluntary exit survey, the SB/SE Division is considering installing a pop-up menu for front-line managers to illustrate the necessary actions to be taken when employees leave their work unit for a job in another division.

### **The costs of turnover should be computed and tracked**

As discussed earlier, CSR turnover adds several million dollars per year to the cost of providing toll-free telephone service. However, the SB/SE Division has no systematic process for capturing the data necessary to calculate the total costs of its CSR turnover.

Managers in the Federal Government have an inherent and increasing responsibility to manage their operations in an effective and efficient manner. Given the significant impact turnover can have on call center operations, it is important that the IRS manage CSR turnover and its associated costs like other key performance indicators. In tight budgetary times, any cost savings from reduced turnover could translate into funding for critically needed operations.

The Chief Financial Officers Act of 1990<sup>43</sup> and the Government Performance and Results Act of 1993 (GPRA)<sup>44</sup> both contain requirements for better management of costs. Activity-Based Costing (ABC)<sup>45</sup> is one cost accounting method being increasingly used by organizations in both the private and public sectors. Unlike traditional cost methods, ABC assigns all costs, including overhead, to specific activities rather than to the entire organization.

The ready availability of cost information on CSR turnover would enable management to benchmark or baseline its costs; provide management with additional information for measuring the cost/benefits of CSR retention initiatives and developing future turnover reduction strategies; and assist

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<sup>43</sup> Pub. L. No. 101-576, 104 Stat. 2838 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 42 U.S.C.).

<sup>44</sup> Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

<sup>45</sup> A cost accounting method that measures costs based on the specific activities needed to create the product or service.

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managers, executives, and stakeholders in determining the efficiency of key program decisions affecting the CSR workforce.

### Recommendations

To assist management in acquiring a better understanding of the extent and causes of CSR turnover, developing appropriate retention strategies that effectively address those issues, and ensuring adequate and reliable data are available on all of its significant component costs of providing toll-free telephone service, the Director, CAS, SB/SE Division, and the Director, Human Resources, SB/SE Division, should coordinate to:

6. Develop a standard data collection instrument for CSR turnover, ensure it is consistently used at each call center, and regularly analyze the data for trends. This information gathering and analysis should include turnover that is internal vs. external, voluntary vs. involuntary, and controllable vs. uncontrollable; and turnover by length of employment, by performance level, and by work shift.

Management's Response: The Commissioner, SB/SE Division, will work with the SB/SE Division Embedded Human Resources (HR) office to request the development of standard reports on HR Connect<sup>46</sup> that will provide turnover information by different variables. In the interim, a standard format will be established that each Director and site will use to report quarterly on turnover.

7. Ensure a consistent and effective method is used at each call center to determine the reasons why the CSRs leave the IRS and/or leave their positions for other jobs in the IRS. Some actions that could be taken include streamlining the method of accessing the SB/SE Division's exit survey on the IRS Intranet, modifying

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<sup>46</sup> HR Connect is the Department of the Treasury's primary human resource system that provides a broad range of applications, services, and information to HR offices, employees, and managers.

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the exit survey to allow employees electing to complete it electronically an opportunity to add narrative comments; redesigning the Separating Employee Clearance Certificate (Form 5389) to ensure the front-line manager informs each separating CSR of the option to complete the survey; developing a pop-up menu that alerts a front-line manager with a CSR transferring to another IRS work area to inform the departing CSR of the option to complete the survey; and evaluating whether randomly soliciting CSRs to voluntarily meet with either a human resources specialist or a manager other than their immediate manager would be more beneficial in gaining insight on voluntary turnover than the current method used to obtain feedback from this group.

Management's Response: The Commissioner, SB/SE Division, stated the Division recently implemented an exit survey for all employees and is working with the Embedded HR office to ensure information from the exit survey is shared with campus management. Additionally, the Division will work with the Strategic Human Resources office to modify Form 5389.

8. Develop the means to accurately and routinely capture and analyze the costs of internal and external turnover of CSRs.

Management's Response: The Commissioner, SB/SE Division, stated the Chief Financial Officer is implementing a comprehensive IRS-wide solution to modernize the IRS accounting system. The Integrated Financial System is designed to meet the need for ABC. The preliminary cost model is scheduled for implementation in April 2004. After its successful implementation, the Division will explore the possibility of securing meaningful reports to reflect the costs of turnover.

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### Management Accountability for Customer Service Representative Turnover Should Be Increased

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Both the length of time employees stay on the job and their productivity on the job are often determined by their relationship with their immediate supervisor. Recent studies have shown that managers are the key element to employee retention:

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- A Purdue University research study<sup>47</sup> found 92 percent of telephone agents looked upon “good relations with my boss” as the most significant element of job satisfaction.
- A 1999 Lou Harris & Associates/Spherion poll<sup>48</sup> found 40 percent of employees that rated their supervisors as poor were likely to leave, compared to 11 percent that rated their supervisors as excellent.

A 2000 Gallup study<sup>49</sup> conducted with 2 million employees at 700 companies showed employees rated having a caring supervisor/manager higher than money or fringe benefits.

### **Call center managers at the IRS are not held accountable for turnover**

The SB/SE Division has not established reducing CSR turnover as a corporate goal. Executives and managers with responsibility for call center operations have no specific performance expectations to reduce turnover.

While call center executives and managers cannot be expected to be able to control all turnover, we believe that, given its significant direct and indirect costs, reducing turnover should be a performance measure management is accountable for achieving. In the private sector, organizations are increasingly holding managers accountable for the morale of their employees, and many companies have also begun to measure managers’ turnover rates.

With excessive turnover resulting in higher costs and potentially contributing to lower productivity and poorer quality, it is essential that turnover be measured as vigorously as other key call center performance indicators. Even though management has no control over external factors (e.g., the economy), actions can be taken at the work unit level to address internal factors that contribute to the CSRs leaving the call center environment.

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<sup>47</sup> Anton and Rockwell, pp. 33-34.

<sup>48</sup> California Franchise Tax Board, p. 23.

<sup>49</sup> California Franchise Tax Board, p. 23.

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Generally, organizations witnessing the most dramatic reductions in turnover are the ones in which the leadership has made it a priority. Of all the changes an organization can implement to reduce turnover, developing managers into retention champions has potentially the greatest impact.

### Recommendations

To increase management accountability for CSR turnover and to ensure appropriate management attention is focused toward this critical aspect of call center operations, the Director, CAS, SB/SE Division, needs to:

9. Add “Annual Turnover”<sup>50</sup> to the corporate suite of call center performance measures.

Management’s Response: The Commissioner, SB/SE Division, stated there is no proven nexus between adding “Annual Turnover” to the suite of corporate measures and a reduction in turnover. The Commissioner stated implementation of this recommendation will place an undo burden on management, may or may not have any impact, and could have negative “unintended” consequences such as local management not dealing with performance problems in an effort to reduce CSR attrition. The Commissioner also stated the Division has found a majority of its CSRs leave for higher-graded positions or lower-graded permanent positions in other parts of the organization.

Office of Audit Comment: We concur that the addition of “Annual Turnover” to the suite of corporate measures may not directly result in the reduction of turnover. Due to its impact on costs and the quality of services provided, however, CSR turnover is a key performance indicator that is aggressively tracked and managed throughout the call center industry. Like the

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<sup>50</sup> The call center industry defines the metric “Annual Turnover” as the total number of CSRs that leave a call center in 1 year divided by the average number of CSRs that worked in the center during the year, typically expressed as a percentage.

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other corporate measures used by the IRS to manage its call center operations, the availability of an “Annual Turnover” measure would help to ensure CSR turnover receives the continuous scrutiny from upper-level management that it needs. Without a corporate measure, upper-level management may not be timely alerted to unsatisfactory turnover trends that require appropriate examination of hiring and retention strategies. Further, we do not share the Commissioner’s concern that the existence of a corporate measure for turnover would deter front-line management from dealing with performance problems when necessary.

10. Establish a corporate CSR turnover goal based on historical data and projected economic conditions and require management at the CAS Accounts Management function call centers to develop site-specific retention strategies to support the corporate goal.

Management’s Response: The Commissioner, SB/SE Division, disagreed with this recommendation for the same reasons as given for the prior recommendation (Recommendation 9).

Office of Audit Comment: We are concerned that, without establishing goals for reducing CSR turnover and developing strategies to support these goals, the SB/SE Division will continue to incur significant annual turnover. While some turnover is inevitable and desirable, we still believe goals and strategies to minimize turnover would enable the SB/SE Division to better focus its workforce planning on reducing CSR turnover and gauge how well its workforce initiatives for reducing turnover are working, thereby lowering its costs to provide toll-free telephone services.

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### **Appendix I**

#### **Detailed Objective, Scope, and Methodology**

Our objective was to determine whether the Small Business/Self-Employed (SB/SE) Division Customer Account Services (CAS) Accounts Management function is effectively managing Customer Service Representative (CSR) turnover at its toll-free call centers.

To accomplish this objective, we:

- I. Reviewed call center industry literature; discussed CSR turnover with call center industry experts at BenchmarkPortal, Inc., Xavier University's Department of Management and Entrepreneurship, and the California Franchise Tax Board; and visited the Social Security Administration headquarters office in Baltimore, Maryland, to determine:
  - Annual turnover rates by industry segment.
  - Annual turnover rates by function.
  - Methods for measuring annual turnover in call centers.
  - Approaches to analyzing turnover in call centers.
  - Tools used to ascertain root causes of turnover.
  - Techniques for calculating Return on Investment for turnover improvement.
  - Strategies to reduce turnover and increase retention.
- II. Evaluated whether a benchmark and goals exist to monitor turnover of the CSRs.
  - A. Interviewed management from the Internal Revenue Service (IRS) Strategic Human Resources (SHR) office, Office of Program Evaluation and Risk Analysis (OPERA), Wage and Investment (W&I) Division CAS office, SB/SE Division Embedded Human Resources office, and SB/SE Division CAS office to determine whether a benchmark and goals have been established for turnover (internal and external) of CSRs at the call centers.
  - B. Interviewed management at the SB/SE Division toll-free call centers to determine whether a benchmark and goals for turnover have been communicated to the call centers.
- III. Evaluated whether a method had been developed to compute turnover (internal and external) of the CSRs.
  - A. Ascertained whether a model had been developed for turnover.
  - B. Ascertained whether a systemic process was in place to capture data on turnover.

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- C. Identified the data sources used to account for turnover (internal and external).
- D. Ascertained the current methods used to calculate turnover and determined whether the methods were universal or unique to each division/call center.
- IV. Evaluated whether turnover by the CSRs is routinely monitored and analyzed to pinpoint patterns/trends of turnover (e.g., length of employment, etc.).
  - A. Interviewed management from the IRS offices of SHR, OPERA, W&I Division CAS, SB/SE Division Embedded Human Resources, and SB/SE Division CAS to ascertain whether any studies or projects had been initiated to examine turnover.
  - B. Interviewed management from the IRS offices of SHR, OPERA, W&I Division CAS, SB/SE Division Embedded Human Resources, and SB/SE Division CAS and the SB/SE Division toll-free call centers to determine whether CSR turnover was routinely calculated, tracked, and analyzed and, if so, whether the costs of CSR turnover were computed.
  - C. Ascertained the data sources used for analyzing CSR turnover to obtain patterns and trends of turnover.
  - D. Determined the purpose of any analysis of CSR turnover data and whether it was used for recruiting, hiring, training, and retaining policies/programs.
  - E. Ascertained whether the IRS used a statistical process control chart in its analysis to determine whether CSR turnover exceeds the norm.
- V. Ascertained the tools (e.g., employee satisfaction surveys, exit interviews, etc.) used by the IRS.
  - A. Interviewed management from the IRS offices of SHR, OPERA, W&I Division CAS, and SB/SE Division Embedded Human Resources and the SB/SE Division toll-free call centers to ascertain the tools used to determine root causes of turnover and evaluate the process for selecting such tools.
  - B. Evaluated how the results from the employee satisfaction surveys and the accompanying team action plans were used to address turnover at the SB/SE Division toll-free call centers.
  - C. Determined if exit interviews were administered to all employees leaving call centers (whether for positions outside or within the IRS), who administered the exit interviews, and whether the exit interview was uniform.
  - D. Ascertained whether the root causes of turnover were investigated/validated and compared to benchmark data and “Best Practices” of the call center industry.
- VI. Reviewed the process used for evaluating proposed turnover initiatives prior to implementation.



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- A. Determined whether and how root causes of turnover were evaluated for the “most critical” and “must fix it now” category and ascertained the process for developing solutions for the “most critical” causes.
  - B. Interviewed SB/SE Division CAS personnel to determine whether the benefits/costs of the turnover improvement initiative, Telephone Assessment Program, were evaluated prior to implementation.
- VII. Evaluated whether the IRS has a corporate strategy to reduce turnover and increase the retention of the CSRs.
- A. Reviewed any human resources studies and current improvement initiatives to ascertain the purpose of such initiatives, the method for assessing initiatives, and whether the impact on turnover was evaluated prior to implementation.
  - B. Reviewed the IRS Strategic Human Resources Fiscal Year 2004 Strategic Assessment Human Capital, the IRS National Headquarters Strategy and Program Plan, the W&I Division Strategy and Program Plan, and the SB/SE Division Strategy and Program Plan; and interviewed managers/analysts to ascertain whether turnover was measured in a consistent manner and whether a corporate plan had been developed to reduce turnover and increase retention of the CSRs.

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**Appendix II**

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**Appendix III**

**Report Distribution List**

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Deputy Commissioner for Services and Enforcement SE  
Acting Deputy Commissioner, Small Business/Self-Employed Division SE:S  
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Director, Personnel Services OS:A:PS  
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Chief, Work Planning and Administration, Small Business/Self-Employed Division  
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    Commissioner, Small Business/Self-Employed Division SE:S  
    Director, Customer Account Services, Small Business/Self-Employed Division  
    SE:S:CAS

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**Appendix IV**

**Outcome Measures**

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Potential; \$3,252,520 reduction in the cost of replacing Customer Service Representatives (CSR) due to lower turnover (see page 4).

Methodology Used to Measure the Reported Benefit:

Every filing season,<sup>1</sup> new hires have to be recruited and trained for the CSR position at each of the Small Business/Self-Employed (SB/SE) Division call centers. To determine whether each call center is meeting its CSR hiring goal for the filing season, the SB/SE Division Customer Account Services (CAS) function tracks the turnover of the newly hired CSRs. For the 1,131 new CSRs hired for the 2002 Filing Season, the CAS function calculated an average turnover rate of 22.6 percent as of the week ending June 1, 2002. Table 1 shows the turnover for the newly hired CSRs in the eight SB/SE Division call centers.

**Table 1: Losses of New Hires for the CSR Job at the SB/SE Division Call Centers**

<b>SB/SE Division Call Center</b>	<b>Type of Call Center</b>	<b>New Hires Committed for the CSR Job</b>	<b>New Hire Turnover</b>	<b>New Hire Turnover Percentage</b>
Brookhaven	Campus	187	36	19.3%
Cincinnati	Campus	149	40	26.8%
Memphis	Campus	171	45	26.3%
Ogden	Campus	214	8	3.7%
Philadelphia	Campus	195	54	27.7%
Buffalo	Remote	69	14	20.3%
Nashville	Remote	83	33	39.8%
Oakland	Remote	<u>63</u>	<u>26</u>	<u>41.3%</u>
<b>TOTAL</b>		<b>1,131</b>	<b>256</b>	<b>22.6%</b>

Source: Fiscal Year 2002 SB/SE Division Accounts Management “CSR” Recruitment and Attrition Summary, Week Ending June 1, 2002.

<sup>1</sup> The period from January through mid-April when most individual income tax returns are filed.

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○ **Annual Compensation for Newly Hired CSRs**

As shown in Table 2, we calculated the annual compensation of the newly hired CSRs for the 2002 Filing Season using the following assumptions:

- The CSRs were hired during first quarter of Fiscal Year (FY) 2002 (i.e., October 2001 through December 2001) for the 2002 Filing Season.
- The newly hired CSRs’ beginning annual salary was at Grade 5, Step 1, of the Federal Government’s pay chart using Calendar Year 2001 salary levels.
- The cost of benefits for the newly hired CSRs was computed at the FY 2002 Floor Benefit Rate of 28.03 percent<sup>2</sup> of annual salary.

**Table 2: Annual Compensation of Newly Hired CSRs for the 2002 Filing Season**

	<b>Grade 5, Step 1 Salary Calendar Year 2001</b>	<b>Cost of Benefits Calculated at 28.03% of 2001 Salary</b>	<b>Annual Compensation (Salary plus Benefits)</b>
Newly Hired CSR	\$23,633	\$6,624	\$30,257

Source: 2001 Federal Government Pay Chart<sup>3</sup> and Internal Revenue Service Corporate Budget.

○ **Estimated Cost of 22.6% Turnover, Average Turnover of Newly Hired CSRs in FY 2002**

Table 3 illustrates the formula<sup>4</sup> we used to calculate the cost of the 22.6 percent turnover rate for newly hired CSRs in FY 2002.

**Table 3: Estimated Cost of Average New Hire Turnover of 22.6 Percent in FY 2002**

<b>Annual Compensation of a Newly Hired CSR</b>	<b>Percentage Used to Determine the Cost of Turnover<sup>5</sup></b>	<b>Estimated Cost of Losing a Newly Hired CSR</b>	<b>Number of New Hire Separations (Total Hired X Average Turnover)</b>	<b>Cost of New Hire Turnover</b>
\$30,257	25%	\$7,564	1,131 x 22.6% = 256	\$1,936,384

Source: American Management Association’s Cost of Early Employee Turnover Calculator, at [www.advantagehiring.com/calculators](http://www.advantagehiring.com/calculators) and Employment Policy Foundation “hrbenchmarks” December 3, 2002, edition, at [www.epf.org](http://www.epf.org).

<sup>2</sup> Floor Benefit Rate was obtained from the Internal Revenue Service Corporate Budget.

<sup>3</sup> Incorporating the 2.70 percent General Schedule increase and a Locality Payment of 7.68 percent for the locality pay area of the rest of the United States.

<sup>4</sup> Formula: ((Annual Salary + Benefits) X 25 %) X (Number of New Hire Separations) = Cost of New Hire Turnover.

<sup>5</sup> Many human resource experts estimate the average cost of replacing a lost employee is, at a minimum, 25 percent of the annual compensation (i.e., salary plus benefits).

**The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist**

○ **Potential Cost Savings, by Reducing Average Newly Hired CSR Turnover to 15 Percent**

According to a recent study by Manchester, Inc., more careful selection in the hiring of front-line employees results in reducing turnover by 57 percent.<sup>6</sup> As shown in Table 4, we conservatively assumed that the implementation of the collective recommendations in this report could reduce turnover of newly hired CSRs from 22.6 percent to 15 percent.

**Table 4: Cost of Average New Hire Turnover of 15 Percent in FY 2002**

<b>Estimated Cost of Losing a Newly Hired CSR</b>	<b>New Hire Separations at 15% Turnover Rate</b>	<b>Cost of New Hire Turnover</b>
\$7,564	1,131 x 15% = 170	\$1,285,880

Source: American Management Association’s Cost of Early Employee Turnover Calculator, at [www.advantagehiring.com/calculators](http://www.advantagehiring.com/calculators) and Employment Policy Foundation “hrbenchmarks” December 3, 2002, edition, at [www.epf.org](http://www.epf.org).

Table 5 summarizes the potential annual cost savings that could be realized by reducing the new hire turnover rate to 15 percent.

**Table 5: Calculation of Annual Potential Cost Savings**

Cost of New Hire Turnover Averaging 22.6 Percent:	\$1,936,384
Cost of New Hire Turnover Averaging 15.0 Percent:	(1,285,880)
Annual Potential Cost Savings by Reducing Average Turnover:	\$ 650,504

Source: Employment Policy Foundation “hrbenchmarks” December 3, 2002, edition, at [www.epf.org](http://www.epf.org).

Table 6 summarizes the total potential cost savings, over 5 years, that could be realized by reducing the new hire turnover rate to 15 percent.

**Table 6: Potential Cost Savings Over 5 Years**

	<b><u>1 Year</u></b>	<b><u>5 Years</u></b>
<b>Potential Cost Savings</b>	<b>\$650,504</b>	<b>\$3,252,520</b>

Source: 5-Year Calculation obtained by multiplying annual potential cost savings by 5 years.

<sup>6</sup> Hauenstein, “How Do I Reduce Turnover? Let Me Count the Ways”, p. 3.

## The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist

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### Appendix V

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<sup>1</sup> U.S. represents United States.

<sup>2</sup> GPO represents the Government Printing Office.

The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist

Appendix VI

Management's Response to the Draft Report



COMMISSIONER  
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

RECEIVED  
JAN 07 2004

DEC 31 2003

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDIT  
(Small Business and Corporate Programs)

FROM: Dale Hart *Dale Hart by MB*  
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – The Small/Business/Self-Employed Division  
Has Taken Actions to Reduce Costly Turnover Among Its  
Customer Service Representatives, but Improvement  
Opportunities Still Exist (Audit No. 200230043)

I appreciate your recognition of the value we place on a stable and experienced Customer Service Representative (CSR) workforce and the human capital initiatives we have instituted to help reduce CSR turnover. We continuously explore ways to improve retention of our CSRs and enhance employee satisfaction through the use of focus groups, local campus employee feedback systems and the Service's official surveys (e.g., Survey 2003).

Your report indicates its recommendations will provide measurable benefits on tax administration by reducing the cost of replacing CSR's due to lower turnover. You project a savings of \$3.25 million over a 5-year period, or \$650,504 annually in SB/SE. These benefits are based on the assumption that implementing all recommendations in the report will reduce new hire separations to 15%, from the current 22.6%. We do not concur with the benefits determined for several reasons. First, the report does not assign specific benefits to each of its recommendations, thus we cannot agree that in the aggregate, CSR turnover rate will improve to 15%. In addition, two of the recommendations are predicated upon negotiations with NTEU which may or may not achieve the goals you predict. Secondly, as detailed below, we do not agree with several of the recommendations. Finally, our research has found that our external turnover of 22.6% is below turnover in comparable industry segments: Financial Services - 25%, Consumer Products - 26% and Insurance - 24%.<sup>1</sup> Also, in looking specifically at annual turnover of full-time inbound telephone service representatives,

<sup>1</sup> eBusiness Best Practices for All Industries 2000, Special Executive Summary, *Important Best Practice Metrics*, BenchmarkPortal, Inc. (Copyright 2001), Dr. Jon Anton, Purdue University, Center for Customer-Driven Quality.

## **The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist**

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public entities had a 22.8%<sup>2</sup> turnover rate while Federal agencies had a 26.2%<sup>3</sup> rate. We will continue to work to improve our 22.6% CSR retention rate.

Page 16 of the report includes the statement "Turnover among seasonal employees is especially high in areas with high costs-of-living. SB/SE Division, as does the IRS in general, has many call centers located in or near major metropolitan areas with high costs of living". Although two of our call centers – Oakland, California and Brookhaven, New York – are in high cost-of-living metropolitan areas, our other six call centers are in moderate to low cost-of-living areas. The reports assumption is that its recommendations, if implemented, will result in a large decrease in CSR turnover. It is our position any benefits resulting from recommendations may be obscured as seasonal employees continue to leave to find permanent positions and/or move to higher graded seasonal positions.

Attached you will find comments to your recommendations.

If you have any questions, please contact me at (202) 622-0600, or John Crawford, Director, Customer Account Services, at (972) 308-7010.

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<sup>2</sup> *Government Call Centers Performance Benchmark Report*, Dr. Jon Anton, April 2002, Copyright, Benchmark Portal, Inc., p. 23.

<sup>3</sup> *Government Call Centers Performance Benchmark Report*, Dr. Jon Anton, April 2002, Copyright, Benchmark Portal, Inc., p. 53.

## The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist

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Attachment

### **RECOMMENDATION 1**

Develop a recruiting strategy that targets individuals who may only want seasonal employment. This could be accomplished by surveying experienced seasonal CSRs to identify reasons why they elect to return each filing season. While some seasonal employees continue employment as a potential path to securing permanent positions, only 14.3 percent of seasonal employees who stayed with the IRS from 1997 to 2001 had converted to permanent positions. Personnel specialists indicate that one reason some individuals prefer a seasonal work schedule is to supplement their Social Security benefits and/or obtain health care insurance.

### **CORRECTIVE ACTION**

Survey 2003, which was available to all employees, included specific questions for seasonal employees relative to why they accepted seasonal employment including: whether they plan to return for the next season; the most important factor in their desire to return; etc. Thus, a separate survey as recommended in the TIGTA report would be redundant. Results indicate a majority of seasonal employees return to obtain full time, permanent employment. We do not believe that a survey of seasonal employees will provide meaningful data since we have found that a majority of our CSRs leave for higher graded positions or lower graded permanent positions.

SB/SE has developed a Perm Hiring Strategy where we analyze our perm staffing needs at least annually to determine if our ratio of permanent to seasonal employees needs to be increased. The ratio will be set at a level that would enable the permanent staff to handle 90% of each call center's workload based on the month with the lowest volume. This strategy will enable us to retain the skills of experienced CSRs.

This recommendation cites an IRS Study of Submission Processing Centers. While this is relevant data for Submission Processing employees who primarily occupy low graded positions with established, primarily short-duration work seasons, the study does not translate to the CSR position (journey level GS-8) within Accounts Management where work seasons have extended durations. Survey 2003 data provides the most current information as to Accounts Management employees' wants/needs.

### **IMPLEMENTATION DATE**

N/A

### **RESPONSIBLE OFFICIAL**

N/A

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

## The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist

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### **RECOMMENDATION 2**

Explore ways to increase the work hours/work season of seasonal CSRs to avert the need to furlough them for extended periods. Approaches that have been successfully used throughout the call center industry include providing filler work (e.g., email inquiries) during telephone lag times; “staff-sharing” with other federal agencies or private call centers as a means to cost-effectively manage seasonal workload peaks and valleys and perhaps lengthen the work season for the seasonal workforce; offering “split shifts”, part-time shifts”, or “mixed tours of duty” to attract individuals such as college students requiring flexible scheduling; and establishing work-study programs with local colleges that would provide education credits for CSR training and on-the-job experience.

### **CORRECTIVE ACTION**

SB/SE CSRs in Accounts Management generally work longer seasons than other seasonal employees in CAS. We have ongoing practices in place to extend the duration of seasonal employees’ work seasons. We take several measures to provide as much work time for seasonal employees as we can within our resource allocation and workload demands. For example, we arrange training to coincide with times where call demand is not as high. We also use “paper” to balance the workload. In addition, if a campus is planning to release seasonal employees, Directors’ work together to determine if work is available in other campus components. We already have an arrangement with Federal Emergency Management Agency (FEMA) so that in case of natural disasters, we provide seasonal employees to answer FEMA calls. We have in the past explored job sharing with both the private sector and other government agencies and we have found it unworkable. Now, it is further unworkable due to the short release periods experienced by our CSRs.

The report mentions that “... The IRS’ former Pacific Northwest District successfully partnered with Eddie Bauer, Inc.” yet this partnership was not sufficiently successful to last beyond the pilot period. We believe that the measures we are taking are the most cost efficient and beneficial to the organization and our employees. However, we will continue to explore any and all options to keep our employees working longer.

### **IMPLEMENTATION DATE**

N/A

### **RESPONSIBLE OFFICIAL**

N/A

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

## The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist

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### **RECOMMENDATION 3**

Request the Deputy Director, Strategic Human Resources (SHR) seek to renegotiate terms of the National Agreement with NTEU to allow IRS management to use TAP as a selection tool for hiring internal CSR applicants at its toll-free call centers. Adding TAP to the internal hiring process should assist applicants in making more informed decisions when accepting the CSR job and, in turn, reduce cycling.

### **CORRECTIVE ACTION**

We will request Strategic Human Resources include the use of TAP assessments for internal hiring in upcoming mid-term negotiations of the National Agreement with NTEU.

### **IMPLEMENTATION DATE**

September 30, 2004

### **RESPONSIBLE OFFICIAL**

Director, SB/SE CAS Division

### **CORRECTIVE ACTION MONITORING PLAN**

The Director, SB/SE CAS Division will monitor progress of mid-term negotiations of the National Agreement with NTEU and ensure that if TAP assessment is permitted for internal hires, it is expeditiously implemented (subject to funding availability).

### **RECOMMENDATION 4**

Develop a video that realistically illustrates positive, as well as negative, aspects of a typical day on the job as a CSR. In particular, the availability of a video would assist internal applicants, who do not participate in the TAP screening process, in making more informed decisions about their own suitability for the CSR position.

### **CORRECTIVE ACTION**

In campus locations, most employees have worked for Internal Revenue Service for many years and have friends who work in Submission Processing, Accounts Management, and Compliance Services. Through this network, employees continuously hear about both the negative and positive aspects of different jobs within each campus segment. Therefore, when employees from Submission Processing and/or Compliance Services apply for CSR positions in Accounts Management, they are making an informed decision. Additionally, the report did not provide compelling evidence that attrition was lower for applicants who had viewed videos from prospective employers.

### **IMPLEMENTATION DATE**

N/A

### **RESPONSIBLE OFFICIAL**

N/A

## The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist

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### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 5**

Explore renegotiating the terms of the National Agreement with NTEU to permit IRS management to use behavioral interview techniques for bargaining unit vacancies.

### **CORRECTIVE ACTION**

While we disagree with this recommendation we do plan to explore the use of behavioral interviewing techniques in the private sector to determine its applicability to CAS Accounts Management.

### **IMPLEMENTATION DATE**

September 30, 2004

### **RESPONSIBLE OFFICIAL**

Director, SB/SE CAS Division

### **CORRECTIVE ACTION MONITORING PLAN**

Based upon how the private sector uses behavioral interviewing techniques and its applicability to the Internal Revenue Service, the Director, SB/SE CAS Division will work with internal stakeholders to implement its use. This may require negotiations with the NTEU.

### **RECOMMENDATION 6**

Develop a standard data collection instrument for CSR turnover, ensure it is consistently used at each call center, and regularly analyze data for trends. This information gathering and analysis should include internal vs. external turnover, voluntary vs. involuntary turnover, and controllable vs. uncontrollable turnover; and turnover by length of employment, by performance level, and by work shift.

### **CORRECTIVE ACTION**

We will work with Embedded HR to request standard reports be developed on HR Connect, which will provide turnover information, by different variables. Until reports are established, we will establish a standard format that each Director and site will use to report quarterly on turnover.

### **IMPLEMENTATION DATE**

Manual process: Quarter ending June 30, 2004  
HR Connect process: Quarter ending March 30, 2005

### **RESPONSIBLE OFFICIAL**

Director, SB/SE CAS Division



## The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist

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### **CORRECTIVE ACTION MONITORING PLAN**

The Director, SB/SE CAS Division will ensure quarterly reports are monitored for trends and if specific actionable items are identified, appropriate actions are taken to reduce turnover, as applicable.

### **RECOMMENDATION 7**

Ensure a consistent and effective method is used at each call center to determine reasons why CSRs leave IRS and/or leave their positions for other jobs in the IRS. Some actions that could be taken include streamlining the method of accessing the SB/SE Division's exit survey on the IRS Intranet, modifying the exit survey to allow employees electing to complete it electronically an opportunity to add narrative comments; redesigning the Separating Employee Clearance Certificate (Form 5389) to ensure front-line managers inform each separating CSR of the option to complete the survey; developing a pop-up menu that alerts a front-line manager with a CSR transferring to another IRS work area to inform the departing CSR of the option to complete the survey; and evaluating whether randomly soliciting CSRs to voluntarily meet with either a human resource specialist or a manager other than their immediate manager would be more beneficial in gaining insight on voluntary turnover than the current method used to obtain feedback from this group.

### **CORRECTIVE ACTION**

SB/SE recently implemented an exit survey for all employees and we are working with Embedded HR to ensure information from the exit survey is shared with campus management. Additionally, we will work with Strategic Human Resources to modify the Separating Employee Clearance Certificate.

### **IMPLEMENTATION DATE**

Sharing information from exit survey with campus management: March 30, 2004  
Modification of Separating Employee Clearance Certificate: September 30, 2004

### **RESPONSIBLE OFFICIAL**

Director, SB/SE CAS Division

### **CORRECTIVE ACTION MONITORING PLAN**

The Director, SB/SE CAS Division will ensure that a consistent and effective method is used at each call center to determine reasons why CSRs leave IRS and/or leave their positions for other jobs in IRS.

### **RECOMMENDATION 8**

Develop means to accurately and routinely capture and analyze costs of internal external turnover of CSRs.

## The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist

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### **CORRECTIVE ACTION**

The Chief Financial Officer is implementing a comprehensive service-wide solution to modernize our accounting system. Integrated Financial System (IFS) is designed to meet the need for activity-based costing. The preliminary cost model is scheduled for implementation in April 2004. After successful IFS implementation, we will explore the possibility of securing meaningful reports to reflect costs of turnover.

### **IMPLEMENTATION DATE**

Contingent upon the ability of IFS to accurately account for costs of turnover, reports will be used to analyze internal and external turnover by October 28, 2004.

### **RESPONSIBLE OFFICIAL**

Director, SB/SE CAS Division

### **CORRECTIVE ACTION MONITORING PLAN**

The Director, SB/SE CAS Division will monitor progress of IFS implementation and ensure that if it allows for accurate capturing of internal and external turnover that reports will periodically be reviewed and analyzed.

### **RECOMMENDATION 9**

Add "Annual Turnover" to the corporate suite of call center performance measures.

### **CORRECTIVE ACTION**

This recommendation assumes that if "Annual Turnover" is added to the suite of corporate measures, it will cause turnover to be reduced. There is no proven nexus between the two and this recommendation will place an undo burden on management and may or may not have any impact. Furthermore, implementation of this recommendation could have negative "unintended" consequences such as local management not dealing with performance problems in an effort to reduce CSR attrition. We have found that a majority of our CSRs leave for higher graded positions or lower graded permanent positions in other parts of the organization.

### **IMPLEMENTATION DATE**

N/A

### **RESPONSIBLE OFFICIAL**

N/A

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

**The Small Business/Self-Employed Division Has Taken Actions to Reduce Costly Turnover Among Its Customer Service Representatives, but Improvement Opportunities Still Exist**

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7

**RECOMMENDATION 10**

Establish a corporate CSR turnover goal based on historical data and projected economic conditions and require management at the CAS Accounts Management function's call centers to develop site-specific retention strategies to support the corporate goal.

**CORRECTIVE ACTION**

We disagree with this recommendation for the same reasons as Recommendation 9.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A