

provisions. Paragraph (c) of this section applies beginning on January 1, 2000.

**John M. Dalrymple,**

*Acting Deputy Commissioner of Internal Revenue.*

Approved: July 9, 1999.

**Donald C. Lubick,**

*Assistant Secretary of the Treasury.*

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## DEPARTMENT OF THE TREASURY

### Internal Revenue Service

#### 26 CFR Part 801

[TD 8830]

RIN 1545-AW80

#### Establishment of a Balanced Measurement System

**AGENCY:** Internal Revenue Service (IRS), Treasury.

**ACTION:** Final regulations.

**SUMMARY:** This document contains final regulations relating to the adoption by the IRS of a balanced system to measure organizational performance within the IRS. These regulations further prescribe rules relating to the measurement of employee performance and implement requirements that all employees be evaluated on whether they provided fair and equitable treatment to taxpayers and bar use of records of tax enforcement results to evaluate or to impose or suggest goals for any employee of the IRS. These regulations implement sections 1201 and 1204 of the Internal Revenue Restructuring and Reform Act of 1998. These regulations affect internal operations of the IRS and the systems that agency employs to evaluate the performance of organizations within IRS and individuals employed by IRS.

**DATES:** These regulations are effective September 7, 1999.

**FOR FURTHER INFORMATION CONTACT:** Michael G. Gallagher, 202-283-7900 (not a toll free number).

#### SUPPLEMENTARY INFORMATION:

##### Background

On January 5, 1999, the IRS published in the **Federal Register** (64 FR 457) a notice of proposed rulemaking regarding the establishment of a balanced system of measures for the IRS. Comments were received and a public hearing on the proposed regulations was held on May 13, 1999.

This document adopts, with modifications, the proposed regulations as final regulations.

#### Explanation of Revisions and Summary of Comments

A commentator suggested that certain organizational changes might add clarity to the regulation. We have adopted this suggestion and have reorganized the regulation to contain separate sections that describe the system for measuring organizational performance and the system for measuring employee performance. Consistent with the suggestion of the commentator, we have revised the heading on the latter performance measurement system to make it clear that it relates to measuring "employee" performance. The organizational changes required incidental reordering within the regulation, as well as the renumbering of additional sections.

A commentator suggested that the discussion of the performance criteria applicable to Senior Executive Service (SES) employees make explicit reference to 5 U.S.C. 4313, which contains certain performance criteria. We have adopted this suggestion and included references to 5 U.S.C. 4313 in section 801.3. The same commentator also suggested that the regulation be modified to provide that SES and managerial employees of the IRS will be evaluated on the basis of organizational performance, as measured under the balanced measurement system for organizational performance. While the IRS will modify the performance criteria for all employees to ensure that they support the organizational measures adopted in this regulation, it will evaluate employees on the basis of the performance criteria made applicable to the positions those employees occupy. Accordingly, this suggestion was not adopted.

A commentator suggested that, while it would be appropriate to gather data regarding customer and employee satisfaction via "questionnaires, surveys and other types of information gathering mechanisms" and a "questionnaire," respectively, as the proposed regulation provides, the IRS might in the future find other appropriate means to gather such data and should not be confined by the regulation from adopting such other information gathering techniques. Although the IRS intends in the near term to gather such customer and employee satisfaction data via questionnaires and surveys, it may in the future determine that other methods of information gathering can provide accurate data. Accordingly, we have adopted the commentator's suggestion and made it clear that questionnaires and surveys are only examples of the information gathering techniques the

IRS may employ to measure customer and employee satisfaction. Sections 801.4 and 801.5 of the regulations reflect the changes. A commentator suggested that since certain organizations within the IRS provide service to customers other than taxpayers, the final regulation should make clear that information gathered from persons other than taxpayers could be used in measuring customer satisfaction. We have adopted this suggestion and modified § 801.5.

A commentator suggested that the quantity element of the business results measure be eliminated because, in an attempt to improve organizational performance with respect to that quantity element, managers might exert pressure upon employees to dispose of taxpayer cases too quickly or without regard to merits of the issues presented. The fundamental premise of the balanced system of organizational measures is that the presence of measures that evaluate the quality of the work done by the unit, the satisfaction of customers served by the unit (including taxpayers), and the satisfaction of employees working in the unit will obviate the risk that managers place undue emphasis upon the quantity of work completed. The absolute prohibitions (1) on the use of tax enforcement results and (2) on the use of quantity data to evaluate non-supervisory employees who exercise judgment with respect to tax enforcement results operate as effective checks against the overzealous use of enforcement authority. Accordingly, we have not adopted this suggestion. We have slightly modified the description of the quantity measure to include customer education, assistance and outreach efforts.

A commentator suggested that taxpayers against whom collection actions have been taken would be unable to provide objective information regarding their interactions with IRS personnel and therefore should not be included among the taxpayers requested to provide information regarding customer satisfaction. IRS experience with customer satisfaction surveys, including those taken at Problem Solving Day events, indicates that this commentator's comments are not well founded. Accordingly, the suggestion was not adopted.

Finally, a commentator suggested that IRS should limit the authority delegated to lower-level employees. This suggestion was beyond the scope of the current regulation and was not adopted.

## Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations and, because these regulations do not impose on small entities a collection of information requirement, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Internal Revenue Code, the notice of proposed rulemaking preceding these regulations was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

## Drafting Information

The principal author of these regulations is Michael G. Gallagher, Office of the Assistant Chief Counsel (General Legal Services). However, other personnel from the Internal Revenue Service and Treasury Department participated in their development.

## List of Subjects in 26 CFR Part 801

Government employees, Organization and functions (Government agencies).

## Amendments to the Regulations

Accordingly, 26 CFR Chapter I is amended by adding part 801 to Subchapter H to read as follows:

### PART 801—BALANCED SYSTEM FOR MEASURING ORGANIZATIONAL AND EMPLOYEE PERFORMANCE WITHIN THE INTERNAL REVENUE SERVICE

Sec.

- 801.1 Balanced performance measurement system; in general.
- 801.2 Measuring organizational performance.
- 801.3 Measuring employee performance.
- 801.4 Customer satisfaction measures.
- 801.5 Employee satisfaction measures.
- 801.6 Business results measures.

**Authority:** 5 U.S.C 9501 *et seq.*; secs. 1201, 1204, Pub. L. 105-206, 112 Stat. 685, 715-716, 722 (26 U.S.C. 7804 note).

#### § 801.1 Balanced performance measurement system; in general.

(a) *In general*—(1) The regulations in this part 801 implement the provisions of sections 1201 and 1204 of the Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-106, 112 Stat. 685, 715-716, 722) and provide rules relating to the establishment by the Internal Revenue

Service of a balanced performance measurement system.

(2) Modern management practice and various statutory and regulatory provisions require the IRS to set performance goals for organizational units and to measure the results achieved by those organizations with respect to those goals. To fulfill these requirements, the IRS has established a balanced performance measurement system, composed of three elements: Customer Satisfaction Measures; Employee Satisfaction Measures; and Business Results Measures. The IRS is likewise required to establish a performance evaluation system for individual employees.

(b) *Effective date.* This part 801 is effective September 7, 1999.

#### § 801.2 Measuring organizational performance.

(a) *In general.* The performance measures that comprise the balanced measurement system will, to the maximum extent possible, be stated in objective, quantifiable and measurable terms and, subject to the limitation set forth in paragraph (b) of this section, will be used to measure the overall performance of various operational units within the IRS. In addition to implementing the requirements of the Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206, 112 Stat. 685), the measures described here will, where appropriate, be used in performance goals and performance evaluations established, inter alia, under Division E, National Defense Authorization Act for Fiscal Year 1996 (the Clinger-Cohen Act of 1996) (Public Law 104-106, 110 Stat. 186, 679); the Government Performance and Results Act of 1993 (Public Law 103-62, 107 Stat. 285); and the Chief Financial Officers Act of 1990 (Public Law 101-576, 108 Stat. 2838).

(b) *Limitation.* Quantity measures (as described in § 801.6) will not be used to evaluate the performance of or to impose or suggest production goals for any organizational unit with employees who are responsible for exercising judgment with respect to tax enforcement results (as defined in § 801.6) except in conjunction with an evaluation or goals based also upon Customer Satisfaction Measures, Employee Satisfaction Measures, and Quality Measures.

#### § 801.3 Measuring employee performance.

(a) *In general.* All employees of the IRS will be evaluated according to the critical elements and standards or such other performance criteria as may be established for their positions. In

accordance with the requirements of 5 U.S.C. 4312, 4313 and 9508 and section 1201 of the Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206, 112 Stat. 685) (as is appropriate to the employee's position), the performance criteria for each position will be composed of elements that support the organizational measures of Customer Satisfaction, Employee Satisfaction and Business Results; however, such organizational measures will not directly determine the evaluation of individual employees.

(b) *Fair and equitable treatment of taxpayers.* In addition to all other criteria required to be used in the evaluation of employee performance, all employees of the IRS will be evaluated on whether they provided fair and equitable treatment to taxpayers.

(c) *Senior Executive Service and special positions.* Employees in the Senior Executive Service will be rated in accordance with the requirements of 5 U.S.C. 4312 and 4313 and employees selected to fill positions under 5 U.S.C. 9503 will be evaluated pursuant to workplans, employment agreements, performance agreements or similar documents entered into between the Internal Revenue Service and the employee.

(d) *General workforce.* The performance evaluation system for all other employees will:

(1) Establish one or more retention standards for each employee related to the work of the employee and expressed in terms of individual performance—

(i) Require periodic determinations of whether each employee meets or does not meet the employee's established retention standards; and

(ii) Require that action be taken, in accordance with applicable laws and regulations, with respect to employees whose performance does not meet the established retention standards.

(2) Establish goals or objectives for individual performance consistent with the IRS's performance planning procedures—

(i) Use such goals and objectives to make performance distinctions among employees or groups of employees; and

(ii) Use performance assessments as a basis for granting employee awards, adjusting an employee's rate of basic pay, and other appropriate personnel actions, in accordance with applicable laws and regulations.

(e) *Limitations.* (1) No employee of the Internal Revenue Service may use records of tax enforcement results (as defined in § 801.6) to evaluate any other employee or to impose or suggest production quotas or goals for any employee.

(i) For purposes of the limitation contained in this paragraph (e), employee has the meaning as defined in 5 U.S.C. 2105(a).

(ii) For purposes of the limitation contained in this paragraph (e), evaluate includes any process used to appraise or measure an employee's performance for purposes of providing the following:

(A) Any required or requested performance rating.

(B) A recommendation for an award covered by Chapter 45 of Title 5; 5 U.S.C. 5384; or section 1201(a) of the Internal Revenue Service Restructuring and Reform Act of 1998, (Public Law 105-206, 112 Stat. 685, 713-716 ).

(C) An assessment of an employee's qualifications for promotion, reassignment or other change in duties.

(D) An assessment of an employee's eligibility for incentives, allowances or bonuses.

(E) Ranking of employees for release/recall and reductions in force.

(2) Employees who are responsible for exercising judgment with respect to tax enforcement results (as defined in § 801.6) in cases concerning one or more taxpayers may be evaluated with respect to work done on such cases only on the basis of information derived from a review of the work done on the taxpayer cases handled by such employee.

(3) Performance measures based in whole or in part on Quantity Measures (as described in § 801.6) will not be used to evaluate the performance of or to impose or suggest goals for any non-supervisory employee who is responsible for exercising judgment with respect to tax enforcement results (as defined in § 801.6).

#### § 801.4 Customer satisfaction measures.

The customer satisfaction goals and accomplishments of operating units within the Internal Revenue Service will be determined on the basis of information gathered via various methods. For example, questionnaires, surveys and other types of information gathering mechanisms may be employed to gather data regarding customer satisfaction. Information to measure customer satisfaction for a particular work unit will be gathered from a statistically valid sample of the customers served by that operating unit and will be used to measure, among other things, whether those customers believe that they received courteous, timely and professional treatment by the Internal Revenue Service personnel with whom they dealt. Customers will be permitted to provide information requested for these purposes under conditions that guarantee them anonymity. For purposes of this section,

customers may include individual taxpayers, organizational units or employees within Internal Revenue Service and external groups affected by the services performed by the Internal Revenue Service operating unit.

#### § 801.5 Employee satisfaction measures.

The employee satisfaction numerical ratings to be given operating units within the Internal Revenue Service will be determined on the basis of information gathered via various methods. For example, questionnaires, surveys and other information gathering mechanisms may be employed to gather data regarding employee satisfaction. The information gathered will be used to measure, among other factors bearing upon employee satisfaction, the quality of supervision and the adequacy of training and support services. All employees of an operating unit will have an opportunity to provide information regarding employee satisfaction within the operating unit under conditions that guarantee them anonymity.

#### § 801.6 Business results measures.

(a) *In general.* The business results measures will consist of numerical scores determined under the Quality Measures and the Quantity Measures described elsewhere in this section.

(b) *Quality measures.* The quality measure will be determined on the basis of a review by a specially dedicated staff within the Internal Revenue Service of a statistically valid sample of work items handled by certain functions or organizational units determined by the Commissioner or his delegate such as the following:

(1) *Examination and Collection units and Automated Collection System units (ACS).* The quality review of the handling of cases involving particular taxpayers will focus on such factors as whether Internal Revenue Service personnel devoted an appropriate amount of time to a matter, properly analyzed the issues presented, developed the facts regarding those issues, correctly applied the law to the facts, and complied with statutory, regulatory and Internal Revenue Service procedures, including timeliness, adequacy of notifications and required contacts with taxpayers.

(2) *Toll-free telephone sites.* The quality review of telephone services will focus on such factors as whether Internal Revenue Service personnel provided accurate tax law and account information.

(3) *Other workunits.* The quality review of other workunits will be determined according to criteria

prescribed by the Commissioner or his delegate.

(c) *Quantity measures.* The quantity measures will consist of outcome-neutral production and resource data, such as the number of cases closed, work items completed, customer education, assistance and outreach efforts undertaken, hours expended and similar inventory, workload and staffing information, that does not contain information regarding the tax enforcement result reached in any case involving particular taxpayers.

(d) *Definitions—(1) Tax enforcement result.* A tax enforcement result is the outcome produced by an Internal Revenue Service employee's exercise of judgment recommending or determining whether or how the Internal Revenue Service should pursue enforcement of the tax laws.

(i) *Examples of tax enforcement results.* The following are examples of a tax enforcement result: a lien filed; a levy served; a seizure executed; the amount assessed; the amount collected; and a fraud referral.

(ii) *Examples of data that are not tax enforcement results.* The following are examples of data that are not tax enforcement results: case closures; time per case; direct examination time/out of office time; cycle time; number or percentage of overage cases; inventory information; toll-free level of access; talk time; number and type of customer education, assistance and outreach efforts completed; and data derived from a quality review or from a review of an employee's or a work unit's work on a case, such as the number or percentage of cases in which correct examination adjustments were proposed or appropriate lien determinations were made.

(2) *Records of tax enforcement results.* Records of tax enforcement results are data, statistics, compilations of information or other numerical or quantitative recordings of the tax enforcement results reached in one or more cases, but do not include tax enforcement results of individual cases when used to determine whether an employee exercised appropriate judgment in pursuing enforcement of the tax laws based upon a review of the employee's work on that individual case.

(e) *Permitted uses of records of tax enforcement results.* Records of tax enforcement results may be used for purposes such as forecasting, financial planning, resource management, and the formulation of case selection criteria.

(f) *Examples.* The following examples illustrate the rules of this section:

*Example 1.* In conducting a performance evaluation, a supervisor may take into consideration information showing that the employee had failed to propose an appropriate adjustment to tax liability in one of the cases the employee examined, provided that information is derived from a review of the work done on the case. All information derived from such a review of individual cases handled by an employee, including time expended, issues raised, and enforcement outcomes reached may be considered in evaluating the employee.

*Example 2.* When assigning a case, a supervisor may discuss with the employee the merits, issues and development of techniques of the case based upon a review of the case file.

*Example 3.* A supervisor may not establish a goal for proposed adjustments in a future examination, based upon the tax enforcement results achieved in other cases.

*Example 4.* A headquarters unit may use records of tax enforcement results to develop methodologies and algorithms for use in selecting tax returns to audit.

Approved: July 22, 1999.

**Charles O. Rossotti,**

*Commissioner of Internal Revenue.*

Dated: July 22, 1999.

**Donald C. Lubick,**

*Assistant Secretary of the Treasury (Tax Policy).*

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## DEPARTMENT OF EDUCATION

### 34 CFR Part 611

RIN 1840-AC67

#### Teacher Quality Enhancement Grants Program

**AGENCY:** Office of Postsecondary Education, Department of Education

**ACTION:** Final regulations

**SUMMARY:** The Assistant Secretary for Postsecondary Education (Assistant Secretary) issues regulations that apply the eight percent (8%) indirect cost limitation for the Department's educational training grants to all funds that States and local educational agencies receive under the Teacher Quality Enhancement Grants Program for States and Partnerships authorized by sections 201-205 of the Higher Education Act (HEA), as amended by the Higher Education Amendments of 1998. These regulations would ensure that the limited funding available to support program activities is concentrated on direct support for improvements in teacher licensing, certification, preparation, and recruitment, rather than for recipient "overhead."

**DATES:** These regulations are effective on September 7, 1999.

**FOR FURTHER INFORMATION CONTACT:** Dr. Louis Venuto, Higher Education Programs, Office of Postsecondary Education, 400 Maryland Ave. SW., Portals Building, Room 6234, Washington, D.C. 20202-5131; Telephone: (202) 708-8847, or by FAX to: (202) 260-9272. Inquiries also may be sent by e-mail to: Louis\_Venuto@ed.gov. If you use a telecommunications device for the deaf (TDD), you may call the Federal Information Relay Service (FIRS) at 1-800-877-8339.

Individuals with disabilities may obtain this document in an alternate format (e.g., Braille, large print, audiotape, or computer diskette) on request to the contact person listed in the preceding paragraph.

#### SUPPLEMENTARY INFORMATION:

##### Background

The Nation faces an immediate need for significant improvements in teacher licensure, certification, preparation, and recruitment. America's schools will need to hire 2.2 million teachers over the next decade, more than half of whom will be first-time teachers. As classrooms grow more challenging and diverse, these teachers will need to be well prepared to teach all students to the highest standards. Contemporary classrooms and social conditions confront teachers with a range of complex challenges previously unknown in the profession. New education goals and tougher standards, more rigorous assessments, site-based management, greater interest in parental involvement, the continuing importance of safety and discipline, and expanded use of technology increase the knowledge and skills that teaching demands.

On October 8, 1998, the President signed into law the Higher Education Amendments of 1998 (Pub. L. 105-244). Title II of this law addresses the Nation's need to ensure that new teachers enter the classroom prepared to teach all students to high standards by authorizing, as Title II of the HEA, Teacher Quality Enhancement Grants for States and Partnerships.

The new Teacher Quality Enhancement Grants Program consists of three different competitive grant programs: (1) The State Grants Program, which is designed to help States promote a broad array of improvements in teacher licensure, certification, preparation and recruitment, (2) the Partnership Grants for Improving Teacher Preparation Program, which is

designed to have schools of education, schools of arts and sciences, high-need local educational agencies (LEAs) and others work together to ensure that new teachers have the content knowledge and skills their students need of them when they enter the classroom, and (3) the Teacher Recruitment Program, which is designed to help schools and school districts with severe teacher shortages to secure the high-quality teachers that they need. For Fiscal Year 1999, Congress appropriated \$75 million for grants to States and partnerships to implement activities under these programs.

These three programs are designed to increase student achievement by implementing comprehensive approaches to improving teacher quality. They collectively provide an historic opportunity to make positive change in the recruitment, preparation, licensing, and on-going support of teachers in America. As such, the success of these programs is critical to the Nation's ability to succeed in increasing student achievement for all students. However, to achieve success those awarded Teacher Quality Enhancement Grants must ensure that they focus their grant funds on costs that are directly associated with securing needed improvements in teaching and the teaching profession. For this reason, on May 19, 1999, the Assistant Secretary published a Notice of Proposed Rulemaking (NPRM) for this program in the **Federal Register** (64 FR 27403) that proposed a limit of eight percent (8%) on the indirect cost rate that States and LEAs receiving Teacher Quality Program funds could use to pay for their overhead and other expenses that they could charge as "indirect costs." This eight-percent rate is the same maximum rate that the Department, under 34 CFR 75.562(a), now permits institutions of higher education (IHEs) and nonprofit agencies to use in charging indirect costs to education training grants. As the May 18, 1999 NPRM explained, by establishing this maximum eight-percent indirect cost for States and LEAs, these recipients will have the same limitation on their indirect costs as do those IHEs and nonprofit organizations that receive funds awarded under the programs' initial competitions. See the Notice Inviting Applications for New Awards and Final Procedures and Requirements for FY 1999 Competitions Under the Teacher Quality Enhancement Grant Programs, 64 FR 6139, 6145-46 (February 8, 1999). Therefore, this regulation will have all