

## SETTLEMENT AGREEMENT

In complete and final settlement of all national grievance(s)/arbitration(s) filed by or on behalf of the National Treasury Employees Union (NTEU or Union) challenging in any manner the distribution of quality step increases (QSIs) during fiscal years 2002 through 2008, the Internal Revenue Service (IRS or Agency) and the Union agree as noted below. The Parties acknowledge that the Agency has determined that it will establish a target QSI award rate of 10% of the permanent employees (which, for purposes of this Settlement Agreement, includes full-time, part-time, seasonal, and intermittent employees) in the bargaining unit as calculated pursuant to paragraph 1A of this Settlement Agreement.

1. This Settlement Agreement adopts criteria for the award of QSIs and cash awards in lieu thereof that are intended to result in the Agency reaching the above-noted 10% target rate. If, however, the total percentage of permanent bargaining unit employees, as calculated pursuant to paragraph 1A below, that actually receives a QSI or cash award in lieu thereof is less than 9% or greater than 11% in any fiscal year, either Party may reopen the terms of this Settlement Agreement. The Parties agree:
  - A. By December of each year, the Agency will provide the Union at the national level with the QSI percentage reached in the preceding fiscal year. This percentage will be calculated as follows: the number of Agency permanent bargaining unit employees as of the end of pay period 19 of the current calendar year who received a QSI or cash award in lieu thereof since the end of pay period 19 of the prior calendar year divided by the total number of Agency permanent bargaining unit employees on rolls as of the end of pay period 19 of the current calendar year; and
  - B. Each Party will have thirty (30) calendar days from the date that the QSI percentage was forwarded to the Union to serve written notice of its intent to reopen the terms of this Settlement Agreement on the other Party. In the event that the Union wishes to reopen this Settlement Agreement, service of its written notice must be made on the Agency's Director, Workforce Relations Division, Human Capital Office. Any such reopening of this Settlement Agreement and resulting negotiations will be prospective in nature.
2. For fiscal year 2009 and each subsequent fiscal year, permanent bargaining unit employees paid under the GS, GM, or GL pay plan shall receive a QSI or cash award in lieu thereof, as provided in Article 18, Section 2.B.1 of the National Agreement, if they:
  - A. are assigned an outstanding annual performance rating (i.e., official rating of record) from the Agency for any rating period ending on or after September 30, 2008; and

- B. were assigned an outstanding annual performance rating (i.e., official rating of record) from the Agency in at least two (2) of the immediately preceding three (3) rating periods; and
  - C. served at least three (3) years at the full performance/journey level or above in their current position with the Agency; and
  - D. have not received a QSI or cash award in lieu thereof within the previous 156 calendar weeks; and
  - E. are not serving under a temporary or time-limited appointment; and
  - F. are not compensated under the W&I Submission Processing incentive pay or gainsharing systems.
3. For permanent bargaining unit employees who are assigned an outstanding performance rating from the Agency for any rating period ending after the effective date of this Settlement Agreement and who satisfy the eligibility criteria set forth in paragraph 2, each shall receive his or her QSI or cash award in lieu thereof, consistent with Article 18, Section 2.B.1 of the Parties' National Agreement and the Parties' National Performance Awards Agreement (NPAA), within the same timeframe that QSIs or cash awards in lieu thereof are currently paid to bargaining unit employees. The Parties acknowledge that the current NPAA provides that an employee who elects a cash award in lieu of a QSI will be paid either that amount or the amount of a performance award, whichever is greater, and that such payment will be made at the time that performance awards are paid in September of each year.
4. For permanent bargaining unit employees who were assigned an outstanding performance rating from the Agency for any rating period ending on or after September 30, 2008, but prior to the effective date of this Settlement Agreement, and who satisfy the eligibility criteria set forth in paragraph 2, each shall receive a QSI or cash award in lieu thereof, consistent with Article 18, Section 2.B.1 of the National Agreement and the NPAA, pursuant to the following procedures:
- A. Within thirty (30) days of the effective date of this Settlement Agreement, IRS shall notify all permanent bargaining unit employees who (i) were assigned an outstanding annual performance rating from the Agency for any rating period ending on or after September 30, 2008, but prior to the effective date of this Settlement Agreement, (ii) did not receive a QSI or cash award in lieu thereof in connection with that annual performance rating, and (iii) meet the eligibility requirements set forth in paragraph 2 of

this Settlement Agreement, that they are eligible to receive a QSI or a cash award in lieu thereof;

- B. Consistent with IRS's current practice, the notice shall advise bargaining unit employees who have a choice between receiving a QSI or a cash award in lieu thereof of the procedure for designating which award they would like to receive and, if a cash award is elected, the procedure for requesting that such award be converted to a time-off award, if the employee so desires;
  - C. If the employee elects a QSI, IRS shall implement the QSI effective on the next full pay period following the date the employee notifies IRS of his or her election of a QSI; and
  - D. If the employee elects a cash award in lieu of a QSI, IRS shall pay the cash award in accordance with the provisions of the NPAA. The Parties acknowledge that the current NPAA provides that an employee who elects a cash award in lieu of a QSI will be paid either that amount or the amount of a performance award, whichever is greater, and that such payment will be made at the time that performance awards are paid in September of each year.
5. The Agency will publicize the above-noted QSI eligibility criteria in "IRS Headlines... and More," "Leaders Alert," and on the IRS intranet within fifteen (15) calendar days of the execution of this Settlement Agreement.
6. The Agency agrees to pay reasonable attorney fees and costs not to exceed one hundred thousand dollars (\$100,000.00) to the Union, upon receipt of sufficient documentation to substantiate (a) the appropriate market rate(s) for the Union's legal service in this case and (b) that such attorney fees and costs were incurred, were directly related to the pursuit of the instant grievance and arbitration, and are reasonable and appropriate under law, rule, and regulation. Such attorney fees and costs will be made payable to the NTEU Legal Representation Fund by means of electronic transfer as established by the current procedures in effect between the Agency and the Union. The Agency's obligation to pay such fees and costs will arise only if the Agency timely receives the above-noted documentation. To be considered timely said documentation to substantiate payment of the attorney fees and costs must be forwarded directly to the undersigned Agency counsel at IRS Chief Counsel, General Legal Services, 200 West Adams Street, Suite 2400, Chicago, Illinois 60606, within thirty (30) days of the date this Settlement Agreement is signed by all Parties. The payment of attorney fees and costs pursuant to this paragraph resolves any and all claims for such

fees and costs by the Union associated with the above-noted national grievance(s)/arbitration(s) and other matters settled hereby.

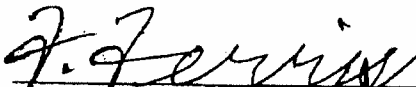
7. All national grievances and/or associated invocations of arbitration filed by or on behalf of the Union challenging in any manner the distribution of QSIs for fiscal years 2002 through 2008 are hereby withdrawn with prejudice.
8. The Union hereby waives and withdraws with prejudice any claim of disparate impact discrimination in regard to the distribution of QSIs during fiscal years 2002 through 2008. Any pending local grievances making allegations of disparate treatment discrimination in regard to the distribution of QSIs on behalf of individual bargaining unit employees are not waived or withdrawn pursuant to this paragraph.
9. The Union further waives any claim for back pay, interest, or other relief on behalf of bargaining unit employees who receive a QSI or cash award in lieu thereof pursuant to paragraph 4 of this Settlement Agreement.
10. The payment of attorney fees and costs pursuant to paragraph 6 of this Settlement Agreement resolves any and all claims for such fees and costs by the Union associated with the above-noted national grievances/arbitrations and local grievances/arbitrations waived and withdrawn with prejudice pursuant to paragraph 8.
11. By entering this Settlement Agreement, the Agency does not concede any violation of any personnel practice, law, rule, regulation, and/or negotiated agreement. By signing this Settlement Agreement, the Agency does not admit that it engaged in discrimination or reprisal or that it violated the Civil Rights Act of 1964, as amended; the Rehabilitation Act of 1973, as amended; the Age Discrimination in Employment Act, as amended; or the Equal Pay Act.
12. The Parties agree that this Settlement Agreement is for the mutual benefit of the Parties and is not precedential. The Union may not use this Agreement as evidence in any subsequent proceeding, except in a proceeding in which either Party alleges a breach of or noncompliance with this Settlement Agreement.
13. This Settlement Agreement supersedes the IRS/NTEU Memorandum of Understanding "IRS Quality Step Increase (QSI) Participation Rates" executed on or about April 20, 2001, and the portion of the Article 18 Side Letter to the IRS/NTEU National Agreement (Appendix III) dealing with the calculation of QSI participation rates.


QSI SETTLEMENT AGREEMENT

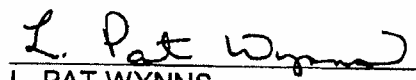
- 14. This Settlement Agreement, consisting of five (5) pages, is the full and complete agreement of the Parties and may not be modified except by written modification, signed and dated by the Parties.
- 15. This Settlement Agreement becomes effective upon being signed by both Parties.

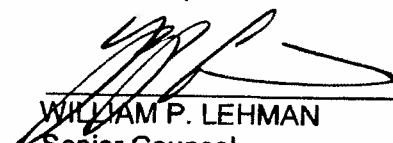
For the Union:

For the Agency:

 2/23/09  
FRANK FERRIS DATE  
National Executive Vice President

 2-24-09  
ROBERT B. BUGGS DATE  
Human Capital Officer

 2/23/09  
L. PAT WYNNS DATE  
Associate General Counsel

 2/24/09  
WILLIAM P. LEHMAN DATE  
Senior Counsel

 2-23-09  
ROBERT H. SHRIVER, III DATE  
Assistant Counsel