

# NOMINATION OF CHARLES O. ROSSOTTI

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**HEARING**  
BEFORE THE  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
**ONE HUNDRED FIFTH CONGRESS**  
**FIRST SESSION**  
ON THE  
**NOMINATION OF**  
**CHARLES O. ROSSOTTI, TO BE COMMISSIONER OF THE**  
**INTERNAL REVENUE SERVICE**

—  
OCTOBER 23, 1997  
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# NOMINATION OF CHARLES O. ROSSOTTI

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THURSDAY, OCTOBER 23, 1997

U.S. SENATE,  
COMMITTEE ON FINANCE,  
Washington, DC.

The hearing was convened, pursuant to notice, at 10:00 a.m., in room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Grassley, Gramm, Moynihan, Baucus, Breaux, Moseley-Braun, Bryan, and Kerrey.

## OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will please be in order.

Today we will turn our attention to the nomination of Charles O. Rossotti to be Commissioner of the Internal Revenue Service.

It is, indeed, a pleasure to welcome you, Mr. Rossotti. I want you to feel welcome here, and not like the officer sent to Little Big Horn as the replacement of General Custer.

There is no question, based on our recent hearings concerning the IRS, that the agency is, indeed, in crisis. Those hearings disclosed a breakdown in the management of the IRS, a lack of accountability of IRS employees for their actions, both against taxpayers and internally against each other.

This lack of accountability has not only facilitated the abuse of power and the denial of due process for taxpayers, but has demoralized the employees, the vast majority of whom I sincerely believe are trying to quietly do their quality work in a most difficult environment.

Our hearings demonstrated that the IRS does not address and resolve taxpayer problems within a reasonable amount of time. It is not properly administering the laws now on the books, and in many cases laws and regulations that are on the books are not being enforced.

Since our hearings, I have been both amazed and disturbed by the outpouring of complaints concerning the IRS. Many tell heart-breaking stories of inappropriate assessments, liens, and seizures made against innocent individuals. These have led to disrupted lives, sullied reputations, ruined credit, lost businesses, and even financial destruction.

I believe that, as the IRS is now at a watershed concerning its future, as there is consensus that something must be done, you, Mr. Rossotti, can make your mark on this agency. There is no more

appropriate time than now for a leader with integrity and vision to step into this troubled agency and help this Congress chart its future.

Your background makes you uniquely suited to the task, and your nomination breaks the mold of former IRS Commissioners. You are not a tax practitioner, you are not a career civil servant. You are a successful businessman, in touch with the needs, concerns, and risk-taking mind-set of entrepreneurs. You have made your mark as a management consultant—an expert on computer systems. What a vital background at a time when one of the agency's major setbacks is a dysfunctional information system.

It is my hope that, should you be confirmed, your service will be characterized by the unorthodox resume you bring to this important appointment. The IRS needs a leader who will buck tradition, a leader willing to take on the status quo and run counter to the culture that has taken root within the bureaucracy. It needs a leader who is willing to question and investigate, a leader who is able to see the agency in terms of its responsibility to government and its need to serve the taxpayer.

There is a balance here. As you consider this balance, as you work to see that it is not only achieved but maintained, I want you to consider it from the perspective you had as a businessman in the private sector.

Mr. Rossotti, you have the opportunity to do great things in this agency. Never in my recollection has an agency been so ripe for change. Great leaders disdain the beaten path. Great leaders, as Lincoln taught, "seek regions heretofore unexplored." This is the kind of leader we need at this time to take charge of the Internal Revenue Service.

The crisis within the IRS will not simply be wished away, nor will it fade with time. As long as this Congress sits we will hold hearings or pursue legislation to restrain the power of the IRS in the lives of honest Americans.

It is important that we ensure that the agency has the tools necessary to enforce the law for those who would cheat, but no law-abiding citizen should ever fear the Internal Revenue Service. Employees of the agency should be proud of their career of service to the American people and free from the fear of testifying before a Congressional committee.

Well, these are objectives. As I promised towards achieving them, the Congress will remain a committed and vigilant ally of the American people. I ask you to join us in our efforts. As I have made clear, your confirmation by this committee and by the Senate as a whole will happen only with a powerful and undiluted commitment to reform.

Senator Moynihan?

**OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN,  
A U.S. SENATOR FROM NEW YORK**

Senator MOYNIHAN. Mr. Chairman, no one could have been more vigilant and concerned in these matters than you have, sir. The results are to be seen in the press this morning and the actions by the House yesterday, although this issue arose first here in this committee. It is part of a change that is a time that has come.

You mentioned Lincoln. The Internal Revenue Service was founded in 1862. As with any organization, it will tend to keep the characteristics of its original period long after the world has changed significantly.

Mr. Rossotti is so wonderfully symbolic of the changes that have quite transformed accounting, financial management, and the general flow of information in complex systems. He will be the first non-tax lawyer to be head of the IRS since World War II. He brings to it an exceptionally wide range of government experience in the Pentagon, as Secretary Warner would know, and in the private sector, a man of large accomplishment, for which we have great expectations, which I am sure will be fulfilled.

I welcome you, sir, and I thank you for the opportunity to speak, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Moynihan.

Senator Grassley?

**OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA**

Senator GRASSLEY. Thank you, Mr. Chairman.

With what I have read about your appointment, about you as an individual, about your business background, and also visiting with you personally, I am enthusiastic about your appointment. I do not expect anything out of this hearing to change my mind. I suppose I should reserve judgment until the hearing is over, but for now I feel very good about it.

So I thank you, Mr. Rossotti, for your interest in the job, and we welcome you to this hearing. Your resume, as the Chairman has pointed out, differs from most of your predecessors, and that is why I am excited about it. I would guess that you did not anticipate that your career path might 1 day make you the Nation's chief tax collector. In a way, I hope you do not become the Nation's chief tax collector. I would rather that you thought of the Commissioner's job as the chief customer service representative at the IRS.

You might know and remember, if you had read some of the publications that carried it, that the President and I exchanged letters late last year and early this year a couple of times about the sort of a person that should succeed Commissioner Richardson.

I suggested that it was about time that we would have a non-lawyer be IRS Commissioner. Secretary Rubin, Deputy Secretary Summers, and I had discussions about this, and it seems that now, they agreed, as the President does, that it was time to move in that direction.

So obviously I am happy that you are here and that you are a non-lawyer in this position, and that I had something, maybe, to do with the President's thinking in this direction. Obviously, I hope you do not hold that against me after a few years in the position.

Nonetheless, I feel as if I have a vested interest in making sure that a non-lawyer succeed in this position, and feel some responsibility helping you do that because the IRS needs to change and it cannot be spoken more thoroughly than what the Chairman just expressed. So, I will not add to that, and wish you well, and will ask you a few questions.

Thank you.

The CHAIRMAN. Thank you, Senator Grassley.  
Senator Kerrey?

**OPENING STATEMENT OF HON. J. ROBERT KERREY, A U.S.  
SENATOR FROM NEBRASKA**

Senator KERREY. Thank you, Mr. Chairman.

As a member of the Appropriations Committee in 1994, we heard the General Accounting Office deliver a rather scathing assessment of the investment and tax system modernization.

In 1995, we saw insufficient progress. A response, but insufficient progress. We fenced the money in the Appropriations Committee, subject to improvement of tax system modernization.

In 1996, the Appropriations Committee created a commission, a Restructuring Commission. For the balance of 1996 and 1997, that commission, chaired by myself and Congressman Portman, Republican of Ohio, a member of the Ways and Means Committee, we had 12 public hearings. We met with thousands of employees and taxpayers. We had unprecedented access to the IRS, thanks to Secretary Rubin and Commissioner Richardson.

One of the most important conclusions we reached is, the law does not give you much authority to manage this agency. Though the recommendations that we made have been controversial as a consequence of disagreement with the administration over the Oversight Board, the most important recommendations have to do with your inability, if you are confirmed, to manage the agency.

I hope that in the opportunity that I will have to ask you questions you will speak forcefully to this, to the need to, as quickly as possible, change the law. The expectations that we have of you being a heroic leader may come to naught, unless we give you the authority to bring on your team.

Unless we change the personnel rules and enable you to manage this agency, you will find very quickly the difference between what the law gives you the authority to do in this agency and what you were previously able to do in the private sector. There is no comparison.

You will find, as well, the urgent need for a change in the law to provide more consistent oversight, and you will find, I believe, the need to give the public more access to information about what is going on in order to increase their confidence and to have in the law incentives to move into the new paradigm of government, I hope, contact with the citizens, that is, electronic filing, where the rate of error is less than 1 percent, compared to paper where it is 25 percent.

So my belief is that Abraham Lincoln himself could have been appointed and would have a difficult time managing this agency unless this Congress changes the law and gives you the authority to be able to manage that agency consistent with our expectations.

So I look forward to your testimony, and I appreciate very much your willingness to serve. I expect that we will not be disappointed if we change the law and give you a clear playing field and match the authority with the responsibility that you have got.

Right now, you have a lot of responsibility, as Senator, former Secretary, Warner can comment on, there is nothing worse than

having a lot of responsibility but no authority to carry it out. That is what you are going to have, unless we change this law.

The CHAIRMAN. Thank you, Senator Kerrey.  
Now, Senator Gramm.

### OPENING STATEMENT OF HON. PHIL GRAMM, A U.S. SENATOR FROM TEXAS

Senator GRAMM. Mr. Chairman, first of all, I have got to rise in defense of Abraham Lincoln. I would like to remind you that the circumstance under which the IRS is operating, is as circumstance dictated by the Civil War.

Senator MOYNIHAN. And the income tax.

Senator GRAMM. Those were both very bad things. [Laughter.] Basically, what we have got to do is find a way to fix it. I would like to say to Mr. Rossotti, I think those of us who tried to look at your background, I have even gone back and looked at the organizations that you are members of and your views on everything from trade to taxes are good. I am not sure why you were nominated for this position. [Laughter.]

But this hearing and the debate on your nomination is not really about you, it is about a realization that this committee and the country have come to, that the IRS is out of control, that they are judge and jury, that they have abused their power, and that we need to dramatically change the mandate under which they operate. I think people are going to look very closely at your nomination because you are the person who will exercise the authority that we will give the new head of IRS.

I am delighted that some person or some group of people have prevailed on the President to end his opposition to this dramatic reform, but I would have to say that I hope the Senate, taking a more deliberative approach, which is, of course, our constitutional mandate, will do a lot more than the House did. I think we need to go further.

I think it is not just simply a mind-set or a sociological structure that pervades the IRS. I think the problem is, they have too much unchecked power. So we intend to try to dramatically change their mandate. Whoever is the new Commissioner, and I happen to believe it will be you, will have an awesome responsibility. You must really want this job to take it under these circumstances.

So anybody that wants this job under these circumstances probably ought to have it. [Laughter.] So you are going to get an idea in this hearing what a bad job this really is. If you do not change your mind, we will probably confirm you. [Laughter.]

The CHAIRMAN. Thank you, Senator Gramm.

It is now my pleasure to recognize our distinguished colleague from Virginia, Senator Warner, and Congressman Davis. Gentlemen, it is a pleasure to have you here.

### STATEMENT OF HON. JOHN WARNER, A U.S. SENATOR FROM VIRGINIA

Senator WARNER. Thank you very much, Mr. Chairman.

I think the best we can do is be brief, because the Chair and the distinguished Ranking Member and other members of this commit-

tee have outlined this distinguished American's background in some detail.

What I can add, is an unequivocal personal endorsement and that commenced 28 years ago, Mr. Chairman, when I was privileged to report in to the Navy Secretariat at the Pentagon. Charles Rossotti was there and he was part of the old, what we call, McNamara Think Tank Team. Charles Rossotti served under three very tough taskmasters, McNamara, Clark Clifford, and then Mel Laird, who brought me, and others, into that Pentagon at a time of crisis.

What this committee has done in its very valuable hearings, is shown that this agency is in a time of crisis. It is not unlike, and ask the distinguished sailor to your right there, Mr. Chairman, a ship that has taken a tough hit and it could be sinking.

This man is to be the captain and to go on that bridge. The first thing he has got to do is rally the crew, because despite the errors and, indeed, the tragic stories about this agency, it must be brought into port, it must continue to serve this Nation, until such time as the Congress, and hopefully the President, join to reshape it. There have got to be very fine people in this agency who will respond to leadership in a time of crisis. Charles Rossotti did respond and gave leadership in a time of crisis.

I remember when we came in, the Republican team, in 1969, there was an effort to let everybody go. But Mel Laird, a former member of Congress and a very wise man, saw in Charles Rossotti a set of brains and capabilities that were needed to provide that transition, and he remained for that year, of which we were privileged to work together on many things.

So I am pleased to unequivocally give my endorsement. He will take this ship, if you can give him a new set of orders, and chart that mission. I am confident that he can lead it.

I would say, if you look into his background, the only thing I would add to the comments by my colleagues here is that he has had a balance not only of a distinguished career in private sector, achieving great heights among his peers, but he has also kept a balance of family life and he has contributed to the charities, many of which he has taken a leadership role.

So he is an individual that, while he may not know this Tax Code, I will tell you, this man, I will bet you, could memorize it in 6 months. [Laughter.]

Let us hope that he does not waste his time doing it. [Laughter.]

But that balance in his background will provide him to be the captain and bring this ship into port.

I yield the floor.

The CHAIRMAN. Thank you, Senator Warner.

Now it is my pleasure to call on Congressman Davis.

#### **STATEMENT OF THOMAS M. DAVIS, A U.S. REPRESENTATIVE FROM VIRGINIA**

Congressman DAVIS. Thank you, Mr. Chairman.

I was delighted, pleased, and really pleasantly surprised when President Clinton decided to nominate my friend Charles Rossotti to be the head of the IRS. As you noted, he is not a tax practitioner. He is not steeped in the traditions and the cultures of the existing institutions. He is not a vestige of the status quo.

He has a unique background. In Northern Virginia, which has a booming high technology community, Charles Rossotti, who has founded AMS and is now chairman of their board, is one of the gurus.

He is one of the most respected information technology leaders we have in Northern Virginia. He understands business organizations. He has helped literally hundreds of governments reorganize and private sector companies reorganize.

He is an expert in information technology. He has been a friend of mine for many years. I think he is the right person at the right time to lead the transformation of the IRS, and I am very pleased at my endorsement.

The CHAIRMAN. Well, gentlemen, I appreciate your being here to introduce Mr. Rossotti. I know you have busy schedules, so stay as long as you want, but feel free to leave.

Mr. Rossotti, are there any members of your family here today?

Mr. ROSSOTTI. Yes.

The CHAIRMAN. Would you introduce them, please.

Mr. ROSSOTTI. Let me introduce some of the members. This is my daughter, Allegra Rich, my son-in-law John Rich, and my brother over here, Jack Rossotti. Unfortunately, my wife and son are in different parts of the country. They are going to have to watch it on TV.

I also have some other friends and supporters here with me this morning, which I am happy to have.

The CHAIRMAN. Well, it is a pleasure to welcome each and every one of them here today. I know they are very proud of what is taking place in these hearings.

Mr. Rossotti, I will now swear you in, if you would please rise and raise your right hand.

[Whereupon, Mr. Rossotti was duly sworn.]

The CHAIRMAN. Please be seated and proceed with your statement.

#### **STATEMENT OF CHARLES O. ROSSOTTI, NOMINATED TO BE COMMISSIONER OF THE INTERNAL REVENUE SERVICE**

Mr. ROSSOTTI. Thank you very much, Mr. Chairman. Thank you for your comments at the opening. Also, I would like to thank Senator Moynihan and the other Senators on the committee for their comments, as well as Senator Warner and Congressman Davis.

I am honored to be before this committee as the nominee for Commissioner of Internal Revenue. As the year 1997 began, it is true, I could hardly have imagined that I would be the nominee for this office, because I am a businessman and not a tax specialist, and I was not seeking public office.

Knowing these facts about my background and the difficulties the IRS faces, many people have asked me why I would accept this nomination. As a matter of fact, I did not accept it quickly, and not without a lot of thought. But I do believe in public service.

I ultimately concluded that the IRS, as you noted, Mr. Chairman, is at a very special time and, therefore, I might have an unusual opportunity to improve the work of an agency that affects a great many people. So, ultimately, I did accept. If this Senate confirms me, I will do the job to the best of my ability.

Although there has been much controversy about the IRS, one point is crystal clear: the IRS must do a far better job of serving taxpayers. At an absolute minimum, we must not allow the kind of unacceptable treatment of taxpayers that was described by the taxpayers at your hearings several weeks ago. That is a minimum. But I think we should aspire to something far more than the minimum.

I believe that the long-term goal should be to provide service to taxpayers that is consistently as good as they receive in the best companies in the private sector. We know that the vast majority of taxpayers file their returns and do their best to pay the taxes they owe, and I just think that we owe these taxpayers first-rate service in return.

Furthermore, my experience tells me that most employees willingly provide and want to provide good service to people they deal with. In fact, they get more satisfaction out of their jobs when they do. But we have to provide them the tools and the support that are going to be needed for them to provide that kind of service.

Now, achieving the goal of first-rate service for all taxpayers is going to require, I think, a truly major shift in focus at the IRS. What I mean by that, is that it means moving from the way that many large private sector companies did business perhaps 15 or 20 years ago to the way that the best companies do business today.

The key difference, is that the old way focused internally, focused on operations: how can I process forms? How can I collect money? The new way tends to focus externally. It focuses on the customer, in this case the taxpayer. The right question is, how can we best help each taxpayer fulfill his or her tax obligations? That is the way we should be looking at this job.

Now, accomplishing this major shift in focus while continuing to carry out the IRS's essential enforcement duties is a difficult job, and it will require, I believe, comprehensive modernization of both the organization and the technology at the IRS.

Much of what is entailed in doing this is described very well in the final report of the Restructuring Commission, which really outlined the kinds of changes that are going to be required in all aspects of the IRS, from internal organizational issues, to the way returns are filed, to compliance strategy.

These are fundamental changes and they do take time and money in any large organization, private or public, and they do impose some risks along the way. But I believe they must be done in order to reach the level of service that we should be providing to taxpayers.

Mr. Chairman, I need to note in addition that over the next three filing seasons there are some special risks that are going to face the IRS because of the need to simultaneously implement changes to its rather old computer systems in order to fulfill the requirements of the 1997 Taxpayer Relief Act, and at the same time update these programs for the century date change. This is essential work and it is going to consume a great deal of management time and money over the next 3 years.

I recall that in his statement to this committee Senator Grassley said that he had found proper oversight of the IRS to require a long-term commitment. I just would like to say that I completely

agree with Senator Grassley's observation, and would also note that modernization of the IRS so as to provide consistently first-rate service to taxpayers will also require a long-term commitment that I think will comprise the better part of a decade.

The ever-increasing complexity of the Tax Code, as many people have noted, also increases the management challenges at the IRS and imposes many burdens on the public. Over time, I certainly hope that the Congress, the IRS, and the Treasury, ought to work together to find ways to reduce this complexity.

But, in the meantime, we must do a better job, I think, of helping taxpayers cope with the Tax Code that exists. I think these efforts are complimentary and they can proceed at the same time.

So, recognizing the obstacles and the risks that we face, there are some important assets that we can build on. Secretary Rubin and Deputy Secretary Summers have made a strong commitment to improving management and service at the IRS and, indeed, have begun the modernization process already.

I think that the excellent work of the Restructuring Commission, under the leadership of Senator Kerrey and Congressman Portman, has created a consensus on the direction in which the IRS must go, and, as Senator Kerrey noted in his opening remarks, has also laid out some of the powers and changes that will be needed in order to make this progress possible.

The renewed interest of the Congress in IRS management issues, as evidenced by the recent oversight hearings organized by Chairman Roth and Senator Moynihan, I think, is an essential force for positive change in this large organization.

Finally, I think, working with the Treasury Department, the IRS itself has made progress over the last year. The recent actions that were taken by Acting Commissioner Dolan to improve treatment of taxpayers, the technology modernization blueprint, and the recommendations from the National Performance Review are important steps.

Finally, I must say I very much welcome the encouragement and support that I have received in my individual meetings with the Senators on this committee over the last couple of weeks.

Before concluding, I would like to share one strong personal belief that I have formed based on 28 years of managing, and that is the tremendous power of open and honest communications in building a successful organization.

In the company that I have headed, we have grown from 5 people to about 7,500 people. I really believe that the policy of open communications in which we have encouraged people to acknowledge problems and mistakes when, inevitably, they have occurred, has been one of the most important reasons why we have been able to adapt and grow over this long period of time.

I fully recognize that we must keep taxpayer information confidential, just as in our company we keep client information confidential. Nevertheless, if I become head of the IRS I will do everything in my power to adopt a policy of honest, open communications within the IRS, with the Congress, and with the public. This is the only way I know how to manage an organization.

Thank you for your attention. I look forward to your questions.

[The prepared statement of Mr. Rossotti appears in the appendix.]

The CHAIRMAN. Well, thank you, Mr. Rossotti. I was very pleased to hear your dedication to reform, not only short-term reform, but long-term reform. I would like to underscore what you said about transparency, sunshine, and the operations of this agency, because I think that is a great need and would make a great difference.

Admittedly, it is very difficult because of privacy. We want to protect the taxpayer. But there is no excuse for there not to be openness with respect to actual operations.

I would like to call on Senator Moseley-Braun. I know she has an opening statement she would like to make, and then we will proceed.

#### OPENING STATEMENT OF HON. CAROL MOSELEY-BRAUN, A U.S. SENATOR FROM ILLINOIS

Senator MOSELEY-BRAUN. Thank you very much, Mr. Chairman.

I am very pleased to see Mr. Rossotti today, having had a chance to visit with him yesterday. I could not help but think, Mr. Chairman, that just as we are talking about the Roth IRA, because of your leadership in regards to the form of this agency we may soon be talking about the Roth IRS as well. [Laughter.]

Senator MOYNIHAN. Carol, I do not think he wants that. [Laughter.]

Senator MOSELEY-BRAUN. You have done a wonderful public service, Mr. Chairman, in calling attention to these issues. Everywhere I go in my State of Illinois people raise with me, what about the IRS, and the hearings? It has resonated with the American people because they know that something is wrong with this agency. It is a very troubled agency.

But we all know that it is an agency with a very important mission, a mission that goes to the heart of how we are able to bring our community together, how we are able to deal with things like paying for roads, bridges, and the like.

I mean, the whole tax function of the IRS is a vitally important operation of the government, and making certain that it functions properly has to be the focus of our reform efforts, and I am certainly committed as well.

I had a chance to visit with Mr. Rossotti yesterday and I was really taken by Senator Warner's comments, that he is being called on to take the helm of a ship that is clearly in trouble. I think that is a fair statement of where we are right now.

But, based on his record as a manager, based on his own private service, I am encouraged that this nominee does have the capacity to scrape off the bureaucratic barnacles off of that ship so that its mission will not be grounded as a result of the problems that have become associated with it.

Preserving the mission and, more importantly, most importantly, restoring the faith of the American people in terms of the fairness and the efficiency of this organization, I think, is a primary concern. Again, this nominee certainly has the background of tackling big jobs like this and winning, and I hope and expect that he will do so here as well.

I would, however, Mr. Chairman, also point out to you that we have a problem in the Senate with the whole confirmation process. We have right now a backlog of judges who have not been confirmed, we have a backlog on the executive calendar of nominations, generally, confirmations that have not happened.

I just hope that this nomination, which is so vitally important, does not get wrapped up in the confirmation stand-off that we appear to be in right now, that we can move this nomination quickly.

Hopefully we can move them all quickly. I mean, I think the country deserves to have a Commissioner of the IRS, the country deserves to have judges empaneled and actually working on the job, because we are having a backlog now, frankly, in the courts because of it.

Having said that, I am just delighted again that you, Mr. Chairman, have taken up this issue. The commission, with Senator Grassley and Senator Kerrey, have done a yeoman's job with their recommendations and with their commission's work.

I hope, again, that as we go forward, for both the short and the long term, that Mr. Rossotti will enjoy the kind of support from this committee that he will need to take on this big job. Again, I thank you very much for the opportunity to say a few words.

The CHAIRMAN. Well, thank you for your very thoughtful remarks, Senator Moseley-Braun.

I think if anything comes through from the statements of the panel, is that we do have a bipartisan consensus as to the need of change and reform, and that we want to work in a bipartisan manner with you as you move ahead with the reform of this most important agency.

Now, normally I have three standard questions we ask all nominees who come before the Finance Committee. I will withhold the question about conflict of interest until later, because that matter will come up.

Next, let me ask, do you agree without reservation to respond to any reasonable summons to appear and testify before any duly-constituted committee of Congress, if you are confirmed?

Mr. ROSSOTTI. Yes, I do, Mr. Chairman.

The CHAIRMAN. And do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office for which you have been nominated?

Mr. ROSSOTTI. No, I do not, Mr. Chairman.

The CHAIRMAN. Mr. Rossotti, I have a long set of questions for you. I do, of course, want complete answers, but as concise as possible.

I would like to refer to a recent article in Newsweek. In it, this article detailed troubling allegations of taxpayer abuse regarding IRS collection activities in Oklahoma. The article noted that the attitude of the IRS seemed to be reflected in one IRS employee's comment, "Let's go rough up some taxpayers."

I would like to quote a few passages from this Newsweek article. "Nationwide IRS abuses are the product of a badly dysfunctional agency, a seemingly totalitarian financial regime, where bullying personalities can find a place to exercise unbridled power over people's lives."

The article further states, "There is a widening gulf between the IRS collection agents who actually have to meet and work with troubled taxpayers and an evermore remote and arrogant management. The latter sees the same taxpayers as ciphers and their assets as numbers to beef up their year-end reports."

Well, the Newsweek article and our 3 days of hearings last month revealed, I think, a very disturbing problem with the IRS. Frankly, it is no wonder that our citizens live in fear of this agency.

I have three questions on this I would like to ask you. What will you do to eliminate the IRS attitude that generates taxpayer fear and ensure that taxpayers are treated in a fair, courteous, and efficient manner?

Second, will you discipline or terminate IRS employees who abuse taxpayers?

Finally, what will you do to ensure that problems such as those described in the Newsweek article are dealt with promptly? Mr. Rossotti?

Mr. ROSSOTTI. Yes, Mr. Chairman. I did read that article as well and I certainly found it as disturbing as I think anyone else that read it. I think that, as I said in my opening statement, that at a minimum, even in the short term, we have to take steps, take action to eliminate the kind of unacceptable practices that were said in your hearing, as well as in this Newsweek article. I think there are some basic principles that we can follow to try to make this happen.

One of them, I think you noted, is the idea of management accountability. To me, all this means is that people are supposed to know what is going on in their organization. The people who are managers, up the line, should make it their business to know what kind of activities their subordinates are pursuing and take appropriate action when they are not following the right kind of principles.

I think that one of the challenges that we have is to ensure that this kind of accountability is known, is taken, and to take appropriate steps when we find that there are people, as there are in some organizations, who are not exercising as managers the right kind of control and the right kind of management and leadership over their organization.

I did say in my opening statement I think one policy that I have followed in my own organization to try to make this happen, which is the whole idea of simply having open communication.

I mean, in our company we have teams of people all over the world that are working directly with clients that can do good or not so good and can cause great trouble for both clients and our company. I think that we have certainly all the formal processes in place, auditors, and formal reporting, and all the rest.

But I think the more important thing is simply that everyone in the organization basically buys in to the values that we have, which is to work with customers in the right way.

I think that is why the power of open communication is so important, because if people throughout the organization do understand the values and do understand the objectives, it just becomes very much more difficult for any individual person to go off in a direction that is inappropriate.

So I think following some of these basic principles will be the kind of steps that we will need to take in order to ensure that these kinds of unacceptable practices are not allowed.

The CHAIRMAN. One of my concerns is that you have your own team to work with, because it is important that you secure independent information as to how the agency is functioning. What do you propose to do to develop an independent assessment of internal workings of the agency?

Mr. ROSSOTTI. Yes, Mr. Chairman. I think that getting the right people in the right jobs is one of the most important things that you have to do as a manager.

I think that one of the early tasks that I need to work on, if I become confirmed, is, in fact, assessing the organization, both structurally and in terms of the way that the jobs of people at the top levels are defined and, indeed, the people that are in those jobs.

When I do that, I certainly will not hesitate to reassign or to bring in new people, if that is necessary. I will say that recruiting is one of the things that I have had quite a bit of experience with at AMS. Last year we recruited about 1,800 professional people. I think that one of the things that you find when you recruit people is that people actually do respond to a challenge.

Some people say, well, how would you ever recruit anybody into the IRS when it is in such difficulty? Of course, some people might not be willing to accept that challenge, but I have found that many people really want to take on something that they think is going to be valuable and make a real contribution. I believe that when we find the need to take people in, that we will be able to recruit them.

Let me just say, there is one particular position that, even though I am not in the office yet, we have had discussions with Secretary Rubin and Secretary Summers about, and that is the Taxpayer Advocate position.

I think we already agree that, as soon as that position becomes vacant, we ought to recruit the next incumbent for that position outside of the IRS. That will also be an early task that we will work on when that position becomes vacant.

The CHAIRMAN. I cannot emphasize the importance that I personally attach to your having an independent team that can secure information outside of the agency. My concern is that, as reforms proceeded in the past, too often all the information was distilled from the agency itself.

In order for you to give an independent evaluation and determine what needs to be done, I think it is critically important that you have available a team that you can rely upon to carry out your instructions.

Now, our hearings reveal that IRS employees may not be following procedures that ensure taxpayers receive due process. The use of liens, levies, and seizures has draconian effects on taxpayers who may lose their businesses, their homes, their bank accounts, cars, and other assets.

Will you make it a priority to ensure that IRS employees follow proper procedures which provide taxpayers due process in the tax system?

Mr. ROSSOTTI. Yes, Mr. Chairman. I think that before you can even get to the idea of good service you have to even have a more basic value, which is fairness. Anything that impairs fairness is not acceptable and basically undermines the entire mission of an agency like the IRS. I think there are a number of steps and a number of approaches we can take. There are some immediate ones that I think are already being announced, or have been announced, by Acting Commissioner Dolan, as well as Secretary Rubin, such as the additional items in the Taxpayer Bill of Rights and the citizen advocacy panels, which provide some additional channels. I have mentioned the idea of getting the National Taxpayer Advocate as a more independent person from outside the IRS.

So I think these are all good steps, but I really do come back to the long-term point, that the really basic way to achieve what you are referring to in your question, Mr. Chairman, is to simply get across the message that this is what the agency is all about and to reinforce that with all the things that you do as part of running an organization, the way that the performance measures are measured.

I think that has obviously been unbalanced in the past. It has been focused on operations and collections. It needs to be much more balanced and focused as well on how things look from the taxpayers' standpoint. There are not very many measures, at least any that I have seen so far at the IRS, that measure things very much from the taxpayers' point of view. So we are going to have to do that. That is going to take some time, but it will be very important in the long run.

The training that we provide to people. It is one thing to train people on a specific operational task, it is another thing to train them to think about things from the point of view of the people they are dealing with.

So these are some of the longer term things that I think we have to do in addition to the short-term steps, some of which are already under way.

The CHAIRMAN. I am glad that you emphasized long term as well as short term. One of my concerns is that too often in Washington there are hearings that expose certain problems. In the short term, there is a lot of action, but down the road people ultimately fall back into their own practices and procedures.

That is not going to happen this time. I can assure you that this committee, as long as I am Chairman, will continue to have oversight to ensure that the kind of reforms and changes that you and I want are, in fact, implemented for the long term. So, I am pleased to hear your emphasis on the long term as well as the initial action.

Mr. Rossotti, our hearings presented two taxpayers with ongoing long-term disputes with the IRS that the so-called problem resolution system did not fix. Numerous other taxpayers have brought similar experiences to our attention. The problem resolution system is simply not working. The IRS publications on this subject are not understandable to the average taxpayer.

So my question to you is, from your business experience, what have you learned from problem resolution systems that could be applied to IRS? How will you fix this so-called system?

Mr. ROSSOTTI. Well, again, I hate to keep coming back to the same theme, but I think there are short-term steps and then there are more long-term changes that need to be made. I think that the short-term steps, many of them have already been outlined. These are things like, doing more to publicize the availability of a taxpayer advocate and the problem resolution program.

I think if we recruit, hopefully, a very energetic person to be the National Taxpayer Advocate, that the right kind of a person can make a difference in that kind of a program. I think the idea of having these citizen advocacy panels perhaps provides another way of creating a channel and some visibility for citizens who might not otherwise know how to use it.

Those are all useful steps. But I think that, again, long term what we have to do is to get all of the organization's employees to think of themselves as effectively taxpayer advocates, not just a few people who are on the outside.

I mean, it is the same principle that you have in terms of building quality into a product or a service in any organization. You cannot really ultimately build it in by doing better inspection at the back end, you have to build it in at the beginning all throughout the process so everybody believes that their job is quality. You know, Ford turned their whole company around by saying Quality is Job One.

I think this is the kind of approach that we need to find at the IRS. Everybody has got to view themselves ultimately as a taxpayer advocate. Even if they are in enforcement, they have got to start thinking about things, at least as much as they can, from the taxpayer's point of view. This is a long-term process, but I think it is the right direction.

The CHAIRMAN. Everyone we know makes mistakes. I believe that mistakes and taxpayer abuse by IRS employees, however, should not be condoned or permitted. I view this as the "zero tolerance" approach. Do you pledge to support a zero tolerance approach to abusive behavior of IRS employees, both with respect to the taxpayer, but with respect to other employees as well?

Mr. ROSSOTTI. Yes, Mr. Chairman. I do not think, as I said in my opening statement, that we can tolerate at any time abusive treatment or highly inappropriate actions of any sort in an organization.

We do have to understand that we have to have a certain set of due process and a certain diligence and fairness in administering that kind of a process because we do not want to take the risk of creating sort of an atmosphere of fear where people are afraid that they will be attacked for things that they did not actually do.

But I think, having said that, we need to administer that process diligently as well as fairly so that people who are acting in a highly inappropriate or abusive way are simply not allowed to remain in the organization.

The CHAIRMAN. Mr. Rossotti, our hearings revealed a real fear—real fear—within the IRS. Both former and current IRS employees testified that they were afraid to report misconduct for fear of retaliation.

Numerous other employees have contacted us with similar complaints. So how will you obtain meaningful feedback from the em-

ployees under these circumstances? Are you committed to protect employees who report IRS misconduct from retaliation?

Mr. ROSSOTTI. Well, again, Mr. Chairman, I really come back to one of the points I made in my opening statement. I mean, probably the most powerful management tool that I have used over the last 28 years is trying to create an atmosphere where people feel that they should report good, as well as bad, news, that they can talk.

Senator MOYNIHAN. You mean bad as well as good news.

Mr. ROSSOTTI. Bad as well as good news, yes. Well, we hope to have more good than bad, but we cannot guarantee that in the short term.

But, yes. I think that we have to get a message across, and I think that starts with the top. That starts with the person in charge being willing and receptive to hear things that you might not prefer to hear, but making it clear to the people that are conveying that you want to hear that.

Then I think the accountability principle goes all the way down the road, and it says to each manager, you are responsible for knowing what is really going on in your organization. You are responsible for finding out what is really happening. That means that you have to not just hear the solutions, but you have to hear the problems.

I do not know that there is any magic formula for making that happen overnight, Mr. Chairman. I think that will take some time. But I hope we can start right today with getting this message across.

The CHAIRMAN. Well, I have to say, I am very concerned about the fear we find so common among the workers, the employees. There is something wrong when you ask an employee to come before this committee and they are willing only to do so behind a screen because of fear of retaliation. That is not a healthy, normal situation for any organization to endure.

Mr. ROSSOTTI. I could not agree with you more, Mr. Chairman. It should not be that way.

The CHAIRMAN. Now, our hearings revealed that goals and quotas, such as dollars collected, cases closed, are being used to measure employee performance. The use of such goals and quotas appear to produce the perverse result of taxpayers being treated unfairly.

Do you pledge that IRS employees at any level will not, and I emphasize the words will not, be evaluated or even perceived to be evaluated in this manner? What should be done to improve employee performance and reward employees who treat taxpayers in a fair and equitable manner? It seems to me one of the important messages we have to get across with reform is that those who perform and provide service to taxpayers, they are the ones that are rewarded.

Mr. ROSSOTTI. That is exactly the case. I think, again, you have the short term action, some of which has already been taken and I believe is being implemented by Acting Commissioner Dolan to simply eliminate some of the inappropriate uses of some of these statistics.

It is rather easy in some respects to eliminate something, but I think the more powerful tool in the long run is to create a set of measures which do, in fact, measure what we want.

One of the things you find out is that measures are very important in the way that they push an organization. I think this is a pretty well-established practice in the private sector, that you measure things from the customer's point of view, as well as from your own operational point of view, because you do have to measure how well you are doing operationally.

But I think in most good private sector companies, or at least the best ones, when there is a contact with a customer they measure it. They ask the customer what they think.

I think there are millions of contacts going on with taxpayers every year in the Service, whether they be through phone calls, letters, or individual visits, and we need to measure either each of those, or through a sampling process, what those taxpayers think and then put that into the whole system in order to create the right incentives for people to do what we want them to do, which is to provide consistently first-rate service to taxpayers. That is not a short-term process.

I mean, companies have spent years working on how to do that. It is not so simple when you have millions of different kinds of interactions, but I think we can take a start on it and, over time, this will be a very powerful tool for accomplishing the kind of objectives you indicate in your question, Mr. Chairman.

The CHAIRMAN. One of the things our hearings revealed was that arbitrary statistics determine a taxpayer's income or expenses. For example, one witness testified that the IRS used unrealistic fixed standards for housing and other living expenses to determine the amount of delinquent tax the taxpayer could afford to pay in installments. Do you believe that the IRS should ignore a taxpayer's specific circumstances and use arbitrary statistical data?

Mr. ROSSOTTI. No, I do not. I think that this is another example of how we have to try to find ways to look at things from a taxpayer's point of view. I obviously do not know the precise details of how these particular calculations were done, but I think the standard that we want to try to get to is to try to find a way to be fair to the individual taxpayer and to look, as much as we can, at the specific circumstances and facts of a taxpayer rather than arbitrary statistics.

The CHAIRMAN. Well, I agree very much with that. I was shocked to find that the agency, for example, used the Bureau of Labor Statistics as the final word as to what an individual's income might be. I do not think that was the intent of those statistics, Senator Moynihan.

Let me point out that our hearings also revealed that IRS field personnel can ignore national office standards without consequence, so this can result in taxpayers being treated differently based upon where the taxpayer is located. Does that make good sense? Will you ensure that the enforcement of the tax laws will be consistent across the Nation?

Mr. ROSSOTTI. Well, I think that that is certainly the goal that we should strive for. I think part of the way that we should do

that, is back to the same old principle of having managers who actually understand what is going on.

In this case, it would not only be the local managers, but the higher level managers, who would have an overview of whether there are inappropriate differences in the way things are being administered. So I think this is the way that we would approach trying to achieve that goal that you stated in your question.

The CHAIRMAN. The GAO recently testified that the IRS has only limited data about the use of collection tools such as liens, seizures, levies. As a result, we were unable to determine the extent to which these collection tools are being misused. What can be done to correct this breakdown in maintaining adequate records and ensure greater responsibility?

Mr. ROSSOTTI. I think that there is, as I understand it, a near-term initiative to do a better job of simply collecting the information along the lines of what was mentioned in the GAO report. While I do not know the exact details of that, I think that could be one of the important short-term, near-term initiatives that could be pursued in order to provide that essential information.

Again, though, I think we get back to the long-term point of trying to look at things from the taxpayer's point of view and having measurements that will give us that information across the board, not just when there are complaints. So I think that is one of the important long-term initiatives that will, I think, potentially in the long-term, help to transform the entire service.

The CHAIRMAN. I now call on my colleague, Senator Moynihan.

Senator MOYNIHAN. Thank you, Mr. Chairman.

Mr. Rossotti, in your testimony you referred to the century date change question. In the hearings that the Chairman convened a month ago on this general problem we had testimony from Ms. Lindy Willis of the General Accounting Office that the year 2000 problem could be catastrophic. That is her phrase, could be catastrophic, compared with which all of your other problems would seem minimal.

If only to save the U.S. Congress, anybody who is running for reelection in the year 2000, is there a point of no return by which point you really better be ready? We have talked about this and I know it concerns you. We would like to know, what do you think now? You do not yet know because you have not had your hands on the system, but could you just comment?

Mr. ROSSOTTI. Yes. Well, first of all, let me say that if appropriate action were not taken on a timely basis you could certainly have some very, very severe consequences. Very severe consequences. I think that, as you noted, Senator, I have not yet looked at this matter in detail.

Senator MOYNIHAN. Well, you have not been inside the system.

Mr. ROSSOTTI. I have not been inside. I have had a limited opportunity to review it. It is the case that there are significant actions already under way. Whether those are adequate or whether additional ones will be required is a question that I will turn my attention to, if I am confirmed, at the very earliest point, literally one of the first things that I think I would need to look into. I think I do understand how to assess that kind of a situation.

I would just like to assure you and the committee that if there are additional immediate steps that are required, and they would have to be immediate because of the time constraints, if they are internal steps, I will certainly take those very quickly.

If they require additional resources or additional assistance, I would certainly come to this committee and the Appropriations Committees, as well as the agency and executive branch, to recommend in the strongest possible terms anything that needs to be done to fix that problem.

Senator MOYNIHAN. You will come, sir, and may I say, you will be welcomed. I mean, even if you feel you do not have to come, maybe you would let us know that, too.

Mr. ROSSOTTI. Well, yes. I think we should report what we find at a reasonably early stage. I do not know that there is such a thing as reassurance in this area, but at least there may be reasonable confidence if we take the right steps.

Senator MOYNIHAN. Thank you very much, sir.

I believe the Chairman has an announcement he has to make.

The CHAIRMAN. Yes. I regret to report that objection has been taken to all committees continuing to meet, so we will have to recess this committee until such time as we can hopefully work it out that we can meet. So we recess, subject to the call of the Chairman.

Senator MOYNIHAN. Thank you, Mr. Chairman. Thank you, Mr. Rossotti.

[Whereupon, at 11:05 a.m., the hearing was recessed to reconvene at 11:37.]

The CHAIRMAN. The committee will please come to order. I apologize for the interruption, and hopefully we can finish without it happening again.

Mr. Rossotti, I would like, now, to turn to the matter of conflicts of interest. You have decided to retain your stock holdings in American Management System, the company you co-founded 27 years ago. Your AMS stock holdings, as well as certain other items, could raise potential conflict of interest concerns during your tenure at the IRS.

Now, to address these concerns, you, the IRS, and the Treasury Department have proposed a series of steps that will be implemented to monitor and resolve these concerns, should they arise.

AMS has agreed to cooperate in this effort. Pat Moynihan and I are satisfied with these procedures, as is the Office of Government Ethics.

Now, it should be noted that AMS has an existing GSA scheduled contract for computer software that is available, as I understand it, to any Federal agency. Since 1991, the IRS has done business with AMS under this arrangement, and expects to continue to do so in the future.

It is my further understanding that you have committed to divest your AMS stock holdings if AMS decides to bid for more work from the IRS beyond the existing GSA contract, or successor contracts of similar scope.

You have made this commitment at the request of the Senate Finance Committee as a condition of confirmation. Let me emphasize that you must be vigilant in your efforts to ensure the public's confidence in you, and of course the IRS as well.

Mr. Rossotti, is this your general understanding of the procedures for resolving potential conflicts of interest?

Mr. ROSSOTTI. Yes, Mr. Chairman, it is my understanding, and I have made those commitments and will abide by them. Let me just add that no one has, I do not think, a greater interest than I do in ensuring that no one believes at this stage in my life that I have taken on this job in order to further any particular personal interest of my own. So I am very glad that we have worked out this process, with the help of you and your staff.

The CHAIRMAN. Senator Moynihan, do you have any comment?

Senator MOYNIHAN. I just don't think anything need be added to what Mr. Rossotti has said, and I think the arrangements are straightforward and public, and will work out just fine.

The CHAIRMAN. Senator Breaux.

Senator BREAUX. Thank you very much, Mr. Chairman.

Thank you, Mr. Rossotti, for being willing to take on this job. I know by those last few questions, you do not do this for the salary. I know it is at a great financial sacrifice that you are willing to serve, and it is at a time when the challenges are immense, but the opportunities are also great, to try and restore the confidence of this very important Federal agency in the minds of the American public.

There is an incredible amount of distrust, mistrust, and misunderstanding about the legitimate and proper role of the agency that you are going to be the head of. My only advice to you, and I have said this when we have met privately, is that you are going to come in with the best of intentions, but you are going to have 100,000 people who have been there a long time before you were there, and most will be there a long time after you are gone.

There will be some in every department that says, well, he is just here for 48 months and we are going to really show him who runs the place, and no matter what your intentions are and what your goals are, there will always be some who will frustrate those efforts. So that is a caveat. It is also intended to encourage you to move in the direction that you feel we need to be going in, as well as what the Congress feels.

I would like to just ask a couple of questions. There are a lot of bills floating around. There is a Kerrey-Grassley bill, there is a Breaux-Kerrey-Grassley bill. There are a whole bunch of them, and I know the Chairman and Ranking Members may be involving themselves in legislative efforts as well. I know the administration is now on board, supporting legislative changes and trying to make the Internal Revenue Service more responsive.

I would like to ask a question. I have introduced a bill which we call the Taxpayer Protection Act of 1997, did it yesterday on the floor, and my bill specifically addresses the National Taxpayer Advocate by trying to make it more independent. They are currently appointed by the IRS Commissioner.

My legislation would say it should be appointed by the President, confirmed by the Senate, responsible in reporting to the Finance Committee and the Ways and Means Committee on their activities, to try to establish some person, some department within the Internal Revenue Service that the average citizen will know is on their

side and fighting for their interests as opposed to the interest of the agency.

My question to you is, number one, have you had a chance to take a look at this effort, and if so, what are your thoughts?

Mr. ROSSOTTI. Well, Senator, I think I even said in the early statement, I think that the taxpayer advocate is an important position and is one that I think at this point should be filled from outside the agency as compared to being inside the agency, and that is something we can do right now as soon as this position next becomes vacant. I hope that at least that would be an important step in the direction of what think is intent of your legislation. I have not had a chance——

Senator BREAUX. Are you saying that the essential features of the legislation that I have authored, with others, could be accomplished administratively without a change in the statutes?

Mr. ROSSOTTI. I cannot say that for sure; I have not had a chance to study the legislation yet. What I would like to do is to study it and consider, if I am confirmed and get in office, how we might be able to more immediately move in the direction that you, I think are, advocating in your legislation, and perhaps come back and talk to you and see if that meets the goals that you have.

Senator BREAUX. But would you have any problems with the essential nature of what we are attempting to do with this particular piece of legislation?

Mr. ROSSOTTI. No, I do not think I would have any problems with the essential features. I only have one point I would like to note, though, Senator. I think that, as I made the point earlier, I do not know whether you were here, but I think in improving the work of an agency or any organization in a fundamental way you are trying to improve service and improve quality in way you deal with customers.

And this is generally true in any organization, it is important to make that everybody's job and to have people be accountable for that as opposed to trying to sort of build it in from the outside.

This does not mean that the taxpayer advocate job is not important, or that the problem resolution program is not important, but I do not think we want to get to a point where that becomes sort of a separate program and then it becomes, in a sense, a fragmentation of responsibility for the people who are actually running the organization.

Senator BREAUX. The thing that I am trying to accomplish, and I think a lot of others are, is that there should be some department that the taxpayer can go to that they know is on their side. They know when they are dealing with the Internal Revenue Service that the Internal Revenue Service, by nature, is on the government's side. There should be some department or some person that is going to look after their interests and disputes with the IRS. That is what, hopefully, our legislation will be able to accomplish.

A final point, quickly. There are some who argue, and I think the legislation pending in the House by Chairman Archer and others, would shift the burden of proof and disputes with the Internal Revenue Service from the taxpayer having to prove themselves innocent to the point of having the government having to prove the case and having the burden of responsibility and the burden of proof.

What are your thoughts on that?

Mr. ROSSOTTI. Yes. I know that this issue just came up yesterday and that it would, under certain circumstances, shift the allocation of burden of proof in civil court issues as between the IRS and a taxpayer.

I think what I would like to do, assuming I am confirmed, is to have a chance to study that carefully and come back to this committee to help work out a process where we can assure that that actually works in a fair manner and that we do not run into a problem where we might have sort of, as we sometimes have, unintended consequences from what the goal is, which is to make it fair for all taxpayers.

So, I would hope we can work together very closely as that matter comes to the Senate side, in order to see how we can improve that or make that legislation work in the way it is intended.

Senator BREAUX. I will not push on that issue. But, really, when you are talking about a system of government, laws, courts, and everything else, generally those who are making allegations of wrongdoing have the burden in our society of proving them, except under the existing format with the Internal Revenue Service, where the taxpayer really has to prove himself innocent.

I think there is basically something fundamentally wrong with that. I think that it gives the government a huge advantage which does not exist anywhere else in our society as far as someone making an accusation. They have to prove it, except here, and I think we need to take a look at that.

Thank you.

Senator MOYNIHAN. Well, I would say to the distinguished Senator from Louisiana that I have similar concerns. Obviously, whatever we do has to be practical and assure that everyone pays their fair share. But this is a country that has always been guided by the rule of law and the burden has normally been otherwise. So I think this is something we will have to look at together very carefully.

I would say to the Senator from Louisiana also that I think the independence of the taxpayer advocate is extremely important. Exactly how that is done is something we will have to work on, of course. But I think there is great merit of having it written into law because there will come a time when you may no longer be Commissioner.

Mr. ROSSOTTI. Yes.

The CHAIRMAN. Hopefully, after all of the reforms are accomplished.

Senator Grassley is on his way back, but while we are waiting for him I will go ahead and continue with some of the questions I have.

It is my understanding that you have great experience in computer technology and have reviewed the GAO report regarding the IRS computer system. What is your opinion of the current state of the IRS computer system?

Mr. ROSSOTTI. Yes, Mr. Chairman. I have had, again, some limited ability to look at the published information on the IRS computer technology and I think I would have to agree with most of the observers that it is not in a good state. It is not in a good state

to provide the tools that the people in the IRS need to provide good service to taxpayers, and it does pose the risk of errors—unintentional errors, but nevertheless errors—in the way that the taxes are administered.

So I think that the IRS is really in a difficult spot with respect to this technology. It really is not adequate, as it stands, at all to support any of the goals that we have for the IRS.

So, simply, I do not think we have any choice but, over time, to replace this technology, which is a very big, expensive, and risky job. I think some good work has been done so far in the last year that I have been able to see in the publication of the technology modernization blueprint. That is a useful step.

I think the idea of doing it in pieces, in sort of a measured way, is really the only practical way that we can do this, but it does mean that it will take quite a few years to do this.

So I think that in order to achieve the long-term goals that we have, I think, all agreed we need to have, which is to provide consistently first-rate service to taxpayers as well as to run the agency efficiently just from an operational standpoint, there is going to have to be a significant effort over a number of years to modernize this technology.

The CHAIRMAN. I understand you are saying that it will take significant time to complete the reform of the computer problem. Can the taxpayer expect any significant improvement in the short term?

Mr. ROSSOTTI. Well, I think in the technology area, as well as in the broader question of modernizing the organization, we really have to work on two levels. I think we have to work on, you might say, a strategic level to really move us ultimately to the goal that we want to achieve, but we cannot have that only be the things that we work on or we will not deal with some of these immediate problems that were identified, for example, in your hearings, and other problems. Also, we have the need to simply update the programs to deal with the 1997 Act and the century date change.

So, yes, I think there are some short-term improvements we can manage within the existing base, and we will try to do that. But, frankly, it is going to be somewhat limited by the technology base that exists because I have to say, it is really not a good technology base as it currently exists. It is a real weakness and a real constraint on what the Service can do.

The CHAIRMAN. That is one of the reasons your background will be so helpful.

Senator Moynihan, you said you had a question?

Senator MOYNIHAN. I just have a query of a general kind in regard to sort of the nice term, "New Paradigm," that Senator Kerrey spoke about earlier, and Senator Gramm was commenting on.

We have here a 19th century government organization. I guess it was Oscar Wilde who said, "America's youth is its oldest myth." I mean, we are a very old country. And very few, when you look around, there has none that has been in place, with the exception of Great Britain, the oldest around.

We have certain modes of organization which developed in the 19th century and they developed in the private sector as well. One of the great stories of the last generation, over the last decades,

has been the transformation in the private system which has not taken place in the public system.

Paul C. Light, who is a professor of government, and a good one, has talked about layering in government as a pattern that accumulates over time. I will just take the liberty, if I can, Mr. Chairman, to read a little piece he wrote about the tax agency, "Layered Look."

He said, "Just imagine a bureaucracy that goes something like this: an agent reports to a district group manager, who reports to a branch chief, who reports to an assistant chief of the division, who reports to the assistant district director, who reports to the assistant regional commissioner, who reports to the regional commissioner, who reports to the chief of staff to a deputy assistant commissioner, who reports to the deputy assistant commissioner, who reports to the assistant commissioner, who reports to the chief operating officer, who reports to the deputy commissioner, and so on."

That is a pattern that is over there now. He suggests that it would be much wiser to just have more agents and fewer of this chain of command, as it is sometimes called.

There is a nice line here: "The best way to reduce taxpayer harassment is not a flat tax, but a flat IRS." I am sure you have given some thought to that subject, or you will be obliged to do.

Mr. ROSSOTTI. Yes.

Senator MOYNIHAN. But, as you have organized your own firm.

Mr. ROSSOTTI. First of all, Senator, I think your observation that the highly layered organization is somewhat of a relic of, I do not know about the 19th century, but at least 15 or 20 years ago.

Senator MOYNIHAN. It was a common mode.

Mr. ROSSOTTI. Common. Common, yes. I think what you have seen in corporate America over the last 15 years is a number of different forms that all have the effect of flattening, to some degree, the organization.

Senator MOYNIHAN. If I could just interrupt. When we talk about the middle management question we are talking about this layering.

Mr. ROSSOTTI. This is exactly true. There are trade-offs. I mean, there has been a little backing away from some of the extreme moves in that direction because you actually do need managers to do some of the things that we talked about earlier today.

But I think that when I spoke in my opening statement about a comprehensive modernization of both the organization and the technology, I think when we look at talking about modernization of an organization, what are we talking about?

One of the things we are talking about is the organization structure and how it is put together, how many layers there are, what the definitions are of the jobs of these top managers, what, as we said before, the measurements are that we want to use with these people, hopefully moving more towards measuring things from a taxpayer standpoint as well as an operational standpoint.

Then, of course, there is the technology. So we have to look, to some degree, at all of these things on kind of a combined basis to come up with a modern look, if you will, for what the IRS can do.

I think one of the problems that may have existed in the past, is that there have been attempts, there have been quite a few reor-

ganizations, and some of them have been quite valuable. But each one tends to be looked at as kind of an incremental step by itself and there hasn't been, as far as I can tell so far, an effort to put this all together.

I think the Commission that Senator Kerrey led did an excellent job in laying out the whole set of things that need to be addressed here, and I think appropriately laid them out at a level of an agenda and set of objectives and topics that need to be looked at.

I think my job, if I am confirmed, in part will be to take that agenda and try to translate that into an overall program that sort of fits together with all the pieces, including the ones that you just raised, as well as some of the other points that others have raised such as the measurement issue, the cultural issue, and of course the technology.

Senator MOYNIHAN. Well, good. After this, would you mind being Secretary of Agriculture for a while? [Laughter.] No comment.

Thank you, Mr. Chairman. [Laughter.]

The CHAIRMAN. Thank you, Senator Moynihan.

Senator Grassley?

Senator GRASSLEY. Before asking maybe one or two questions, I would make a couple of comments. These are follow-ups of what I considered a very satisfying discussion that you had with Chairman Roth on a couple of points that he raised.

One, was your pledge of openness. I think this is so important. In a participatory democracy like we have, it is very important that we make sure that the public's business is public, in fact.

Also, the reason that that was encouraging coming from the new head of the IRS, is because Senator Kerrey and I kept hearing through much of our IRS restructuring hearings that we had, and this came from both witnesses from within the IRS as well as from without the IRS, of how insular—and that is a word that kept popping up in our hearings—the organization was, both from the standpoint of the public really not knowing much about it, and also insular that they thought that they had all the expertise they needed so they did not have to go outside the agency for expertise.

So you see, what you said to the Chairman, if you just do that, being open, you are going to be doing a great deal of good, setting a standard for maybe even a lot of other agencies of government.

Also, I would suggest to you, though, when you have a pledge of openness, that that is not just a request from members of Congress, and I do not mean that you respond to every request for information from the public, but the fact that there were not records being kept, and there was an historian that resigned because she was not getting cooperation, and that the shredding machine is going all the time at the IRS as opposed to the fact that records should have been kept, and of that nature. It all leaves the impression that there is something there to hide.

So, be open to Congress. If you can help Congressmen get information, just basic information that ought to come out, obviously that is one of our biggest frustrations, not only from the IRS, but a lot of agencies.

But I think it is also possible, to the extent to which the law allows, to be open with the public, generally. So, I want to thank you for that because I think it sets a very good standard.

The other one was where the Chairman was asking you what you would do to stop this fear that is expressed by employees if they were to expose something that is going wrong.

As I have stated so many times, there is always a great deal of peer pressure to go along/to get along within any organization, and that a person is going to get a black eye if he gives the organization a black eye.

That is sort of culture within an organization is just a depressant to people who know something is wrong, who know where the skeletons are buried, and get those skeletons out of the closet.

So I guess I would express an admonition to you that when you have that first example of somebody being punished by an administrator for something that has been known, that ought to be known, that you would make an example out of the person that did the punishing, but also in some way honor the person who is coming forward, to encourage that sort of thing, because we in Congress could not get information adequately from most organizations if it were not for people in the bowels of the bureaucracy that are willing to come to us clandestinely and give us information.

They should not have to do that, but they do have to do it and we get information. But it seems to me that it is essential for you as an administrator of an organization, likewise, to have that same openness, for people to come to you when something is wrong, because you cannot know what 1,001 employees of the IRS are doing all the time.

So, to that extent, I wanted to make those comments following up on the discussions you have had, and not to detract from what the Chairman said, because his questions were tough questions, but I think you gave adequate responses.

My question would deal with a provision that is in the Kerrey-Grassley legislation in regard to giving personnel flexibilities to the IRS, that would be changes in the civil service laws, and things of that nature. When a new person like you comes on board you have to have that.

First of all, maybe in answer to previous questions, you have already expressed this. Do you feel that without any changes in personnel laws that you have the ability to get the management team you need to run this organization or do you feel that changes in those laws, not necessarily as expressed by Kerrey-Grassley, but that is one example of some changes that we think should be made?

Mr. ROSSOTTI. Senator, I think I will answer your question this way. I think that there is more that can be done. There is considerably more that can be done, even within the existing flexibilities, than has been taken advantage of in the past, because I have had a chance to talk to some of my colleagues in the Treasury Department to find out what flexibility exists. For example, in the Senior Executive Service there is the possibility of bringing in people on temporary appointments, there is a possibility of bringing people in on what is called general service appointments. There are not very many of those in the IRS right now, but there are some in the Treasury Department. I have gotten, I think, a strong commitment from Secretary Rubin and Deputy Secretary Summers that they would help me in that regard if that is necessary.

So we are not, let us say, blocked from moving in that regard if we want to. Nevertheless, I do agree with Senator Kerrey that it is fairly limited in terms of what can be done, and it would be most beneficial if the flexibility that is in the Kerrey-Grassley legislation were to be passed. But I do not want to use that as an excuse for saying we are not going to be moving forward in some of the things that we may need to do in the nearer term.

Senator GRASSLEY. Could you give us some examples of the nature of the expertise that you would seek to make sure that you had a good management team?

Mr. ROSSOTTI. Well, yes. I think that, in fact, there has been some that has already been done. I think that one very good example is the recruitment of Mr. Gross as the Chief Information Officer, and that was done before I got here. But I have had a chance to work with him and meet with him, and I think some of the work that has been done in the last year as a result of his coming in is an excellent example of what can be done by bringing in even just one person.

I think that the taxpayer advocate role is one that I think we have all agreed at this point, as it becomes vacant, should be filled from the outside. That is a real opportunity to bring in some fresh thinking, and also to give at least some of the independence that Senator Breaux would like to see to that job. Those are some specific ones.

Now, as we get into further analysis of the organization structure and the definition of some of these jobs, there may very well be other jobs in areas like customer service and operations that could be filled from the outside, and there are also, I should note, people at State levels.

I have had occasion to work with quite a few State government agencies in different fields, and there are some excellent people at the State level who might be ultimately recruited as we see needs, and some of them have experience that is directly relevant. So, I think those are some examples of the kind of people that we could attract to this agency.

Senator GRASSLEY. One last question. Senator Kerrey and I heard at the very first meeting of our Restructuring Commission that the IRS almost never advises Congress about the administrability of pending tax legislation.

As a Commissioner, would you express an opinion on the administrability of a pending tax legislation, and probably equally as important, how would you reach the opinion, particularly, that you do not have the background in tax administration, tax law?

Mr. ROSSOTTI. Let me take the two parts to your question, Senator. I think in the first question, I think if the Congress, as I hope they will, seeks more input on the administrability and the complexity and so forth of the Tax Code that we pointed to in the legislation that you have sponsored, I think that would be very welcome. I think that, as head of the IRS, I would do everything in my power to help make that process work.

As far as my own personal ability to contribute to that, I certainly have to acknowledge that I am not a tax specialist, I am not a tax expert, and therefore I would have to rely, perhaps to a great-

er extent, than perhaps some other Commissioners, for example, the Chief Counsel and other people within the IRS.

The process of relying on experts and specialists is not a process that is unfamiliar to me, because in running any kind of a large organization you do have a number of different specialties, including legal specialties, that you have to rely on people to advise you on.

The job of the manager is to weld these people into a team that sort of moves things forward in the direction that everybody agrees on. So that would be the role, I think, that I would have to play and I would see that as the right process.

Senator GRASSLEY. Maybe just a comment on the first question I asked you in response to what you said you hoped that the Congress would ask you for your view, but considering the fact that you end up with a very big job it may be a case of not waiting to ask for your view, it might be something that you would be wise in giving your view and saying, listen here, you knuckleheads, do you know what you are doing, to the tax law here. How are we ever going to get this money collected?

I am done, Mr. Chairman.

The CHAIRMAN. I would ask unanimous consent to put a letter, with an attachment from Assistant Secretary Linda Robertson, that does address this question of appointing a limited number of key management experts. As I understand, you could be in a position to appoint or fill as many as 25 general SES positions, including those which may be available in the Treasury Department. Without objection, it is so included.

[The letter appears at page 74.]

The CHAIRMAN. At this stage, we will call on Senator Kerrey.

Senator KERREY. Thank you, Mr. Chairman.

First of all, I have got some questions I would just submit for the record rather than going through all of them.

The CHAIRMAN. Without objection. As a matter of fact, we will keep the record open for questions until 6:00 this evening.

[The questions appear in the appendix.]

Senator KERREY. First of all, Mr. Chairman, I appreciate the interest in making certain that Mr. Rossotti, if he is confirmed—and by the way, with you and Senator Moynihan, you have examined this way to resolve a potential conflict of interest, and I appreciate your doing that and I am fully supportive of that. All concerns about that, as far as I am concerned, are evaporated.

I appreciate your interest in bringing on some additional management people because I think that will help. The problem, though, is that Mr. Rossotti, we are still a Nation of laws. The law, I believe, is going to make it difficult for you to do your job. I mean, it just flat is.

Let me use a couple of examples to illustrate. Now, I am not an artist. Normally we send these things over to somebody to put color-coded charts and everything together. But you are the bull's eye. [Laughter.]

That is you. You are the bull's eye. In my office I recall this Billie Holiday tune, "Nobody Loves You When You're Down and Out." Remember that, Mr. Rossotti. [Laughter.]

You are the bull's eye and you will hear about the General Accounting Office. They have a number of investigations going on right now and they will require you to report to them and talk to you, and you may be called up in front of this committee or other committees to report and answer questions about what the GAO is saying about the way you are managing your agency.

You have the Vice President's Reinventing Government Shop, and you have got to respond to what the Vice President is doing, and the Reinventing Government Shop, and what is going on there.

Then you have the Treasury Secretary up here. He has a deputy. They have taken an increasing concern and interest in what the IRS is doing.

Then there are Assistant Secretaries. You have Assistant Secretary for Tax Policy. They will be talking to you and telling you what to do. You have the General Counsel. He may leave you alone, but I doubt it. [Laughter.] You are going to be talking to the General Counsel as well.

Then you have got Assistant Secretary for Management, one for strategic planning, a Chief Information Officer that you referenced earlier, they are going to be involved with the decision making that you are describing earlier.

Then you have got an Under Secretary for Enforcement, and then you have got over here 535 members of your board of directors called the U.S. Congress. We organize into six committees, one of which you are now before.

You will get to know the Appropriations Committee on the Senate side, you will get to know the Government Operations Committee. You will get to know the Ways and Means Committee on the House side, as well as the Appropriations on the House side, and Government Affairs on the House side. That is what you will get to know.

You will soon begin to understand that a lot of your energy is directed, as a consequence of the law. Each one of these individuals has legal authority to ask you questions, as well as any member of Congress that has an interest in what you are doing can also make an inquiry of you as well, and divert some of your management time. I dare say you have nothing like that in the private sector.

Mr. ROSSOTTI. Yes, sir. That is true.

Senator KERREY. Nothing in the private sector comes close to that. I think it is important to say that at the beginning, because throughout your testimony you talked about taking appropriate steps if things are not being done, using positive incentives, getting people to buy into values, you want to have your own independent team, getting the right people in the right jobs, everybody must pay attention to quality and become an advocate, all that sort of thing.

But, Mr. Rossotti, here is you again. And this is a really sloppy one, I did this in a hurry. There are 10 service centers, each with a manager. There are 10 regional offices, each with a manager. There are 33 district offices, each with a manager. There are three computer centers, each with a manager.

Mr. Rossotti, if you find out that you do not like their performance, you do not have the authority to remove them. You do not have authority to remove them. You cannot flatten out the organi-

zation, as we were talking about earlier. You do not have the statutory authority to do that.

Now, we want civil rights laws to be followed, we want personnel laws to be followed. There are all sorts of laws that need to be followed. But it seems to me, Mr. Rossotti, both from the standpoint of your oversight and from the standpoint of your management, that you have got to acknowledge that unless this law gets changed it is going to be very, very difficult for you to execute whatever plan you put in place.

As I have said in my office, my first piece of advice to you is, you go down this little river right now, now everything is calm. But if you listen closely, you can hear some rapids up ahead with about 150-foot falls not too far down, and it is called the taxpaying season, the filing season. It is coming up. I would not mess with the boat too much between now and the time the falls arrive.

I would keep that boat heading down, because I will tell you, nobody is going to love you if through this filing season something goes wrong, goes south, and all of a sudden we have all kinds of problems out there with taxpayers.

I will guarantee you that all the stuff we are dealing with right now will look pale in comparison to the problems we are going to face if we do not get through a filing season with 200 million documents that have got to be processed and moved back out to taxpayers.

But I do not know how you are going to be able to do it, Mr. Rossotti, even with all the wonderful things that you said in response to the Chairman and others who asked you about how you were going to manage this agency.

First, are you aware of what the current law is? Are you aware of the restrictions on both sides of this operation in arriving at a strategic plan and in implementing a strategic plan? And if you are aware of it, what sense of urgency do you have, given the fact that history is going to judge you?

Everybody is praising you right now, but I will say it for the second or third time, wait until the problems appear, Mr. Rossotti. It will be a much different performance. Members of Congress would be, perhaps, slightly less complimentary of your private sector skills if that were to happen.

Mr. ROSSOTTI. Senator Kerrey, first of all, let me acknowledge the second point you have made which we talked about in your office, about the need to actually get the day's work done in the filing season even while we pursue these other changes. I am certainly fully aware of that.

That is one of the things that creates, I think I mentioned the word risk in my opening statement. I think that is one of the things, together with the century date change, the 1997 Tax Act, all these things that require us to keep the basic operations going even while we try to implement these changes, I am aware of that. That is one of the things that makes it take time.

I think that on your broader point of the need for the legislation, I think I also said in the statement I really think that in your Commission and in the legislation that you have drafted to implement some of those things, that you have really laid out not only the direction but the tools that are required to really do this.

I was simply making the comment that there are some things that could be done. I do not want to say that there is nothing that can be done in the meantime. I think that there are some things, even in the personnel area, that we can do. But I think, if we could get the legislation that you have proposed implemented it would be an enormous benefit in terms of being able to make the kind of improvements we need.

I also want to say that I think it was very beneficial that the issue about the governance seems to be coming to a resolution, because I think that controversy was sort of over-shadowing to some degree the consensus on the other very important points that were in the legislation. So I know there are still some issues to be worked out, but I certainly hope they can be expeditiously.

Senator KERREY. I understand that the vision inside of the Commission's recommendation, and now the legislation, is that we remove some of the difficulty you have got being pulled in lots of different directions by putting a public board in place. We have now worked out the differences there with the administration on that board.

Likewise, on the other side, it is not just this committee that is going to make sure that the IRS does its job, I am sure that the taxpaying citizens in all of the other six committees have alerted their representatives and they are going to make certain that you do your job.

One of the things that we found, again, in the 12 public hearings that we had from private sector people and listening to what they were doing when it comes to technology or other strategic plans, is that you have got to get consensus.

You have got to get shared consensus on what that plan is, otherwise it is going to be very difficult to execute the plan. When you have got 535 people on your board of directors and 270 million people on the other side who are also asking for a variety of different things, it is difficult, under the current law, to get to that shared consensus.

It is difficult to get shared consensus between the executive branch and the legislative branch on what it is that the IRS strategic plan is going to be, and how then you are going to implement it.

Let me just point out, Mr. Rossotti. Again, I suspect you know this, but if you make a decision, either as a consequence of something that the Chairman and Senator Moynihan in the 3 days of hearings that we had uncovered, that is to say, employees doing things that are obviously a violation of either law or ethics and you decide you want to do it, there is a laborious process to remove employees and a laborious process to remove senior level executives. It is very laborious.

Under our law we give you power, consistent with civil rights laws and consistent with good personnel management rules, we give you power to move senior executives. Would you not want that kind of power?

Mr. ROSSOTTI. Yes, sir.

Senator KERREY. We also give you, Mr. Rossotti, in addition to the power to put negative incentives in place, one of the other things that is missing is the power to put positive incentives in

place, the ability to incentivize people not just with a stick, but with a carrot of high performance.

My guess is, in your business you have both positive and negative incentives in place for employees, and my guess is you get better performance using positive incentives than you do for negative incentives.

Mr. ROSSOTTI. Absolutely, Senator. I think that is just a basic principle. I could not agree more.

Senator KERREY. We, in this legislation, give you the authority to do that. We rewrite the civil service laws to give you much more flexibility in managing the work force. It has not been very controversial.

Every former Commissioner that came before us, and practically everyone did, pointed to this as being an enormous problem in being able to manage the agency and being able to do what you have described here so eloquently, and I think very persuasively, that you would like to be able to do if you are confirmed by the Senate.

Mr. Rossotti, I am going to go from orange to red here in about a second. There is another section of this bill that we are now working on that provides not only goals, but strong incentives for electronic filing. Our commission discovered that the error rate for electronic filing was less than 1 percent, and it is 25 percent in the paper world.

Again, there are statutory barriers to being able to do that. Can you comment in your own capacity, to shorten up since the bell just went off, to tell us how you see electronic filing in, and I hate to use the word, but this new paradigm of government operations?

Mr. ROSSOTTI. Well, I mean, I think you appropriately in your report noted that there are widespread benefits from doing this, for both the taxpayers and also downstream all the way through.

I mean, it is a way of basically starting with a higher quality input at the beginning, which is going to help all the way downstream. As to the specific kinds of incentives, this is a matter that I also have to study. I think that the service has done one good thing.

They have brought in a new individual to be the head of Electronic Tax Administration from outside the Service who has some experience, and I hope to work with that person to come up with a plan that deals with both removing barriers, which is one of the things I think was also noted in your report, removing some of the barriers, such as the multitude of forms that have to be filed, even when you do an electronic filing, as well as positive incentives.

Senator KERREY. Let me just finally comment that in some of the other discussions on the taxpayer advocate, I appreciate what you say about when the position comes open. But again, as a Nation of law, we are better off changing the statute.

The current advocate is a terrific person. He is doing all he possibly can do, and he has substantially improved the operation of the problems resolution folks. I have no criticism of his performance or him personally.

But we are a Nation of law, and I believe we are going to have a much greater chance of having independent judgments made if

it is a non-IRS person, since their advancement is likely to occur as a consequence of pleasing people that they may have to go after.

Lastly, let me say, I appreciate what you said to Senator Grassley when he said it would be nice to have an IRS Commissioner that is independent. Again, unless we change the law, it is going to get very uncomfortable for you if you, in an independent fashion, say, Senator Blowhard, that is a lousy tax idea because this is what it is going to cost, because the next day you are going to ask Senator Blowhard to appropriate some money for you, or the President, for that matter, at whose pleasure you serve.

So, again, I think under law we need to create that kind of independence, as well as a process that allows us to calculate what it is going to cost the taxpayer to comply with some new proposal that we are about to enact into law. I thank you for your testimony.

The CHAIRMAN. Senator Bryan.

Senator BRYAN. Thank you, Mr. Chairman.

There for a moment, Mr. Rossotti, after Senator Kerrey outlined the daunting challenge that you faced, I thought perhaps that you might withdraw before I had a chance to ask any questions of you.

Let me just say that I appreciate people like yourself coming from the private sector, willing to perform a public service in an agency that is extraordinarily troubled, unpopular, and in which there is a labyrinth of problems, some of which Senator Kerrey outlined.

I am one who is pleased that your background is different from your predecessors, not to indict them for any shortcomings or failures. We clearly need a more aggressive management approach, and I think your skills and your background indicate that you are the person for the job, and that is why I am enthusiastic about your nomination and intend to vote for your confirmation.

Let me mention an area that has been covered by a couple of my colleagues but continues to plague the agency, and that is the quota issue. Since 1973, it has been the ostensible policy of the IRS not to use quotas. Now, in fairness, Mr. Rossotti, you have not seen this particular document here so I am going to ask you in the abstract about it.

But, I mean, shortly after the hearings were convened by the Chairman and a number of witnesses came before us and testified an anonymous fax arrived from Las Vegas indicating that an internal document that was being used clearly gives the import or the impression that quotas are still a very significant part of an evaluation process.

That may not be true as a matter of law, but, as we understand, perception is reality. If the perception of employees is, yes, they are going to be evaluated based upon their hourly performance in terms of how much money they recover, that is their response.

Mr. Dolan, who is the Acting Commissioner, as you know, responding to my letter, gave, I think, a very forthright response. He indicated after examining the document that, in point of fact, it did appear to be a quota, and he has indicated that he is going to discontinue this approach.

What we need to do is to drive a silver stake through the heart of this quota process, and I would hope that you would be energetic

in extricating this deeply-embedded cultural perception that somehow everybody that comes before the IRS who has got some kind of a problem in terms of the amount of money he or she owes the government is perceived much as the motorist driving down the street in a community in which a police officer has a quota of 30 traffic tickets each week.

Share with me any thoughts that you have as to how we can eradicate this practice and kill it, kill it, kill it for good.

Mr. ROSSOTTI. Well, I think that is a pretty good phrase, driving a silver stake through it. We may adopt that as the slogan. But I think it is, as I somewhat indicated in my opening statement, a two-part process here. I mean, I think there are some near-term things which we can do which basically get to the point of just stopping certain practices which are inappropriate.

I think, as Acting Commissioner Dolan has done, he has already started down that path. That can be done, I hope, pretty quickly because it is relatively easier to stop something than it is to create something.

But, in the long term, I really do think we have to create something which is a system of balanced measurements for the way the whole organization works, as well as parts of it, which has a major part of the balance being looking at things from the taxpayer's point of view.

Almost all private sector companies that are good companies do this now. When they have a contact of any kind with a customer, they measure how it looks from the customer's standpoint. That is an important part of the evaluation for the people that are providing that contact. Then you also have to have some operational measures to measure how well you are doing.

But, you know, these heavy-handed tactics, I think it has been proven in some private sector organizations that they are not really necessary always to collect money. I would like to give you an example from my own business experience. One of the industries that we have worked with a lot is the telephone industry. Fifteen years ago, a lot of our clients in the telephone industry followed pretty much the same practice for their accounts receivable.

When a record showed that a customer had not paid the phone bill for a certain number of months they sent them a letter and said, "We are going to cut off your phone service," and then they would actually shut down the dial tone. That was a very unpopular practice with customers. It caused a lot of complaints, a lot of resentment.

When the market started to become more competitive and they started to really try to look at things from the customer's point of view, they started to realize you just did not have to do that most of the time, that most of the people were going to pay their phone bill.

You might find out that maybe the records were wrong and they really had paid it, or they had paid part of it, or maybe that particular customer was ill for a short time or had gone on a trip and they just neglected to pay that bill.

When you started to look at it that way, and this is one of the areas of consulting that our firm did, you could find out that it just

was not necessary in most cases to send out a notice threatening to cut off the phone service.

The business practices in that industry have changed very much and fewer notices are going out telling people that companies are going to cut off their phone service, yet these companies are still collecting the money. As a matter of fact, you can see that that industry is doing pretty well right now.

So I think that there are ways to accomplish the objectives that we have without having to have these kinds of heavy-handed techniques.

Senator BRYAN. Well, I appreciate that response. Your answer leads to another area of inquiry. That is, we talk about making the agency more consumer friendly. I think we have to be honest and realistic with the American people.

A trip to the Internal Revenue Service office, if there is an issue between them and the taxpayer, will never be like a trip to Disneyland. It is going to be a traumatic experience. But there are some things that I think that we can do, and I would hope that you would ask us to provide you with those tools if you feel that you do not have them.

For example, there is no reason why hours cannot be adjusted so that taxpayers that have difficulty do not have to take time off of work, that we can have Saturday hours, we can have Friday hours, hours after the normal close of business, whatever that is, 5:00 or 6:00. That is something that, it seems to me, we ought to try to do.

One of the sources of frustration is that people are encouraged to phone if there is a question they have, oftentimes getting no response because of the overload. I mean, you get millions of calls. I think there is 105 or 110 million requests for information that the IRS gets in a single year.

In all fairness, no other organization, private or public, in the world gets that kind of a volume, so that represents a management challenge for you that I hope you would be able to work with, and that basically we can encourage some management practices to make the process a little bit more responsive to what the public needs and expects.

Mr. ROSSOTTI. Absolutely, Senator. That is the whole point of what I was trying to get to in my opening statement, to shift the whole thing, to look at things from the taxpayer's point of view and figure out how we can help the taxpayer comply.

Some steps are already being taken. I mean, there recently have been some announcements by the Service to help expand some of the hours, and we do have these Saturday problem resolution days that will be coming up, and I think those are some useful steps in the short term.

Senator BRYAN. Yes. I hope we will follow that.

Senator Kerrey asked you about the telefiling system. Let me just say, I think that is good news. That is a message that really has not gotten out.

I am told, and you may comment on this, that the universe is about 26 million. There are about 109 million individual returns filed each year, 26 million of which may be eligible for the telefiling which, for those who are not familiar with it, is a paperless system

in which you simply use your telephone to, in effect, file your tax return, and we are getting something in the neighborhood of about 4.7 million returns.

If we could expand that to the full potential, it seems to me it provides, number one, easier filing for the individual consumer, second, reduces the paperwork and the burden that you all face so that you can focus on the other management problems that legitimately are personnel intensive. Any thoughts in terms of how we expand that universe?

Mr. ROSSOTTI. Yes. Well, I think that Telefile actually just won an award as one of the best government innovations.

Senator BRYAN. Yes, it did.

Mr. ROSSOTTI. I think that is an innovation that originated in the Service, so it is an excellent example of some good things that are going on.

I do not know the precise number as to how far it can expand. I certainly know it can expand—

Senator BRYAN. Let us assume it can expand in that magnitude. My purpose is not—

Mr. ROSSOTTI. Yes. I think a big part of the expansion is going to be—and from what I know, some efforts are going to be under way very shortly to do this—is to find a better education program, if you will, a marketing program, to let people in that universe know that they have that option.

There are some other things that are going to be done to deal with people who may have changed their addresses, and that is one of the things that you have to deal with in that area.

So I know there are some steps already under way in this coming filing season. I think, as we look at the overall electronic filing program, we would want to look at that as one of the strategies that we want to pursue.

Senator BRYAN. Yes. I think it does require at least some kind of public awareness. Not everybody is convenient with all of the electronic capabilities that we have today, but using a telephone is an instrument that generally is not terrifying to most folks. To explain what can be done, it seems to me, will encourage expanded usage of that, and I would encourage you to do so.

A final question or two. The testimony that was elicited during the course of the witnesses who the Chairman brought before the committee was quite discouraging in one respect.

I mean, the Congress, in a bipartisan way, Taxpayer Bill of Rights I was enacted, Taxpayer Bill of Rights II, all of which were designed to enhance public protection, the taxpayer advocate providing some kind of an independent mechanism to resolve conflicts that occur short of a formalized appeal process.

I think it is fair to say, Mr. Chairman and Senator Moynihan, that there was almost a consensus from all witnesses that the Taxpayer Bill of Rights really had not made much of a difference. My purpose is certainly not to criticize my colleagues who labored mightily on its behalf, and I was a member and supported the Taxpayer Bill of Rights II, what can we do?

I mean, if this is all just an exercise in which we pass legislation, as I hope we will—I am a supporter of Senator Kerrey's legislation—what can we do to ensure that its intent is fulfilled?

Mr. ROSSOTTI. Well, I think this question goes to the basic point that we have to get the message across of what we are trying to do in the agency and get people across the whole organization to realize that being a taxpayer advocate is not some oddball job that only a few people have, but is really, in some sense, a part of everybody's job.

So I think this is part of the long-term education and refocusing process that we have to go through in the agency. That does not mean there are not some, again, short-term steps.

For example, some of the new legislation that is being proposed as a result of Senator Kerrey's efforts, I think, can make a difference. There are some short-term steps like these citizen advocacy panels that can perhaps have some immediate impact to give people more awareness and a better channel. But, longer term, we have to shift the whole focus.

Senator BRYAN. Mr. Chairman, thank you.

I just would conclude by observing that Congress has been a part of the problem. We provided a Tax Code that is extremely complex. We can also be part of the solution.

I would hope that you would feel free to come before us and indicate if there are legislative obstacles that make it impossible for you to do the job, to let us know so that we can respond.

Mr. Chairman, thank you very much.

The CHAIRMAN. Thank you, Senator Bryan. I appreciate your line of questioning because one of my principal concerns is the implementation, the short term as well, but the long term, because so many of these practices we have tried to address in the past, but nothing has really happened, whether it is browsing through the taxpayer's file, whether it is a question of quotas, or whatever.

So it does seem to me that how we change the culture for long-term reform is going to be one of your most challenging and difficult questions.

I have a series of questions that have been propounded by employees or former employees of the agency. I will not go through all of them, but I would like to ask you two of them because I think they demonstrate some of the concerns internally in the IRS.

These are basically prepared by the employees, slightly paraphrased to make them shorter. But, "Tactics employed by IRS are not user-friendly, they are to shame and discredit the taxpayer so that he feels isolated and alone. This has led to many suicides.

If that does not work, then tools of terror are used such as higher and higher bills that no IRS employee can logically explain. If this does not work, then the IRS begins to take away property in a public, shameful way.

If questions are asked about why proper procedures are not being followed, revenue officers respond, well, these are just guides, we do not have to follow these procedures."

This sounds like some kind of a terrorist, prisoner of war camp, not an agency where its own head is saying that it serves most taxpayers very well and very successfully. So I guess we go back to our old question, what do you do to change this culture?

Mr. ROSSOTTI. Well, Mr. Chairman, to have people in an organization that would believe that they are able to act that way is just completely antithetical to my way of thinking about the way things

should be done, and I think that we have to get that message across.

Again, I do not want to sound like a broken record, but there is short term and there is long term. Short term, we have got to weed out the real problem areas, the real problem cases.

We have got to stop some of the practices that may have led, even if unintentionally, to this, like the use of these quasi-quotas. I think that process is under way. Some of the steps that have been taken, like these citizen panels, may give some additional outlets. If we get a taxpayer advocate that has a little bit more clout in the organization, that can help.

But, again, longer term we have to change the whole view of what the organization is to be one which looks at things from a taxpayer standpoint on everything we do and really tries to understand that its mission is to help taxpayers comply with the law.

The CHAIRMAN. The thing I want to emphasize, and I think what gives these questions great significance, is that this question is from a current front-line employee who knows what the situation is. One more.

"Revenue officers are taught to maintain control and create fear and intimidation. They are taught in basic training to demand immediate and full payment of taxes due.

"If the taxpayer says that they cannot pay the full amount, the revenue officer often responds with a threat to seize and sell all of the taxpayer's property. Every taxpayer is treated this way to create an atmosphere of fear and intimidation so the revenue officer can get what he wants."

He ends up with, "Do you believe a better approach would be to find out what the problems are and how they are to be resolved by working together to get the taxes paid?"

Mr. ROSSOTTI. The answer to that is, "yes, I do." I think I used the example of some of the work we have done in the telephone industry. It may be that cutting off your phone service is not quite as hard a sanction as seizing your house. Certainly it is not.

But, still, it is not something that people like to imagine happening to them. It used to be said in that industry that this was the only way that you could collect money and the only way that you could protect the "rate base" as it was called. That has proven not to be the case.

I mean, sometimes there may happen to be, and there are always ultimate sanctions that may have to be used in an exceptional case. But certainly that has been shown in any number of other places—including, I believe, in State governments—as not the only way, and not even the best way, to collect money even when it is due.

So we have to work on these practices. We have to reform them. I certainly believe that it is well-proven in other sectors that it is not necessary to use these kinds of heavy-handed tactics in order to protect and collect revenue.

The CHAIRMAN. Mr. Rossotti, I have said on several occasions that I would only vote to confirm you if I were persuaded that you were dedicated and committed to real reform of the agency. As I listen to you this morning, I think that is your intent.

Do you have any more questions?

Senator MOYNIHAN. Just to once again state my complete agreement with the Chairman, and my admiration for the open, direct, and instructive way you have answered our questions.

Mr. ROSSOTTI. Thank you, Senator.

The CHAIRMAN. I would just ask you this final question. As IRS Commissioner, will you ensure that the agency will fully cooperate with the Senate Finance Committee and other Congressional committees to help us execute our oversight responsibilities; will you provide us on a timely basis all information, witnesses, and documents requested by Congressional committees in fulfilling their oversight responsibilities?

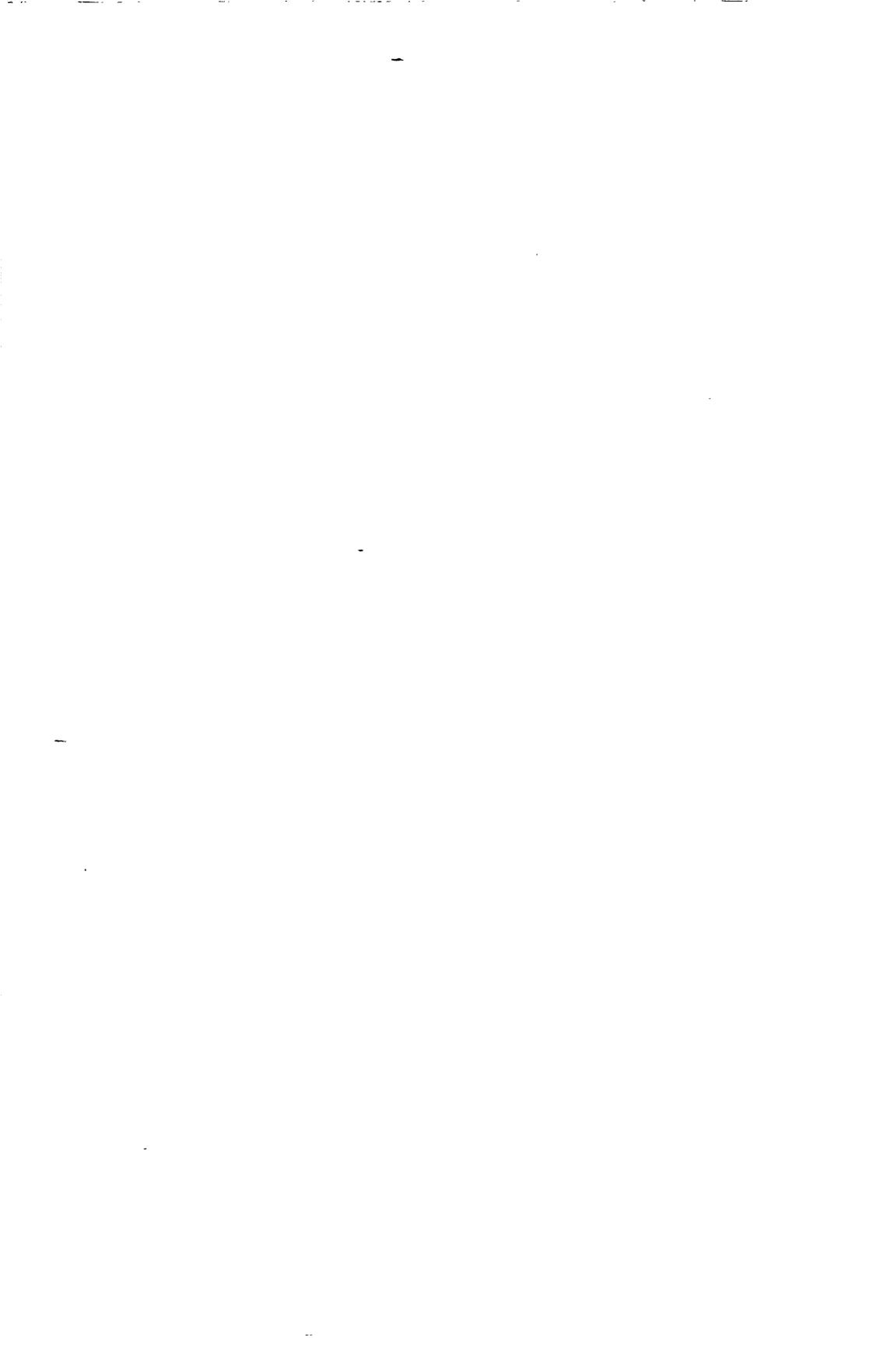
Mr. ROSSOTTI. Yes, Mr. Chairman, you have my commitment.

The CHAIRMAN. Well, thank you very much, Mr. Rossotti. It is my intent to move as rapidly as possible with this nomination, and we appreciate your candor and frankness.

Mr. ROSSOTTI. Thank you very much, Mr. Chairman.

The CHAIRMAN. The committee is in recess.

[Whereupon, at 12:42 p.m., the hearing was concluded.]



# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

### PREPARED STATEMENT OF CHARLES O. ROSSOTTI

I am honored to be before this Committee as the nominee for Commissioner of Internal Revenue. As the year 1997 began, I could hardly have imagined that I would be the nominee for this office, since I am a businessman, not a tax specialist, and was not seeking public office.

Knowing these facts and the difficulties currently facing the IRS, many people have asked me why I would accept this nomination. Indeed, I did not accept quickly. But, I do believe in public service and after some reflection I concluded that at the IRS I might have a special opportunity to improve the work of an agency that directly affects a great many people. So, I did accept and if the Senate confirms me I will do the job to the best of my ability.

Although there has been much controversy about the IRS, one point is crystal clear: *The IRS must do a far better job of serving taxpayers.* At a minimum, we must not allow at any time the kind of unacceptable treatment described by the taxpayers at this Committee's hearings a few weeks ago. But, we should also aspire to a higher standard than the minimum. I believe the long-term goal should be to provide service to taxpayers that is consistently as good as they receive from leading companies in the private sector.

The vast majority of taxpayers do their best to file returns and pay the taxes they owe. We owe these taxpayers consistently first-rate service.

Further, my experience tells me that most employees willingly provide good service to people they deal with and get more satisfaction from their jobs when they do so. But, we must provide them the tools and support they need to provide good service.

Achieving the goal of consistently first-rate service to taxpayers will require a major shift in focus at the IRS. It means moving from the way things were typically done in large private sector companies 15-20 years ago to the way the best companies do them today. The old way focused on internal operations: "How do we process forms or how do we collect money?" The new way focuses on the customer, in this case the taxpayer. It asks: "How do we best help each taxpayer meet his or her tax obligations?"

Accomplishing this major shift in focus, while carrying out the IRS's essential enforcement duties, is a difficult job that will require comprehensive modernization of both the organization and technology at the IRS. Some of what it entails is described in the final report of the Restructuring Commission, which discusses changes in almost all dimensions of the IRS, from internal organization to the way returns are filed to compliance strategy. These kinds of fundamental changes take time and money in any large private or public organization, and impose risks along the way, but I believe they must be made.

In addition, over the next three filing seasons, the IRS faces the special risk of simultaneously implementing the changes to its systems required by the Taxpayer Relief Act of 1997 and the Century Date Change. This essential work will consume a great deal of management time and money during this period.

In his statement to this Committee, Senator Grassley said that he had found proper oversight of the IRS to be a long-term commitment. I agree with Senator Grassley's statement and note that the modernization of the IRS so as to provide consistently first rate service to taxpayers will require a long-term commitment comprising the better part of a decade.

The ever increasing complexity of the tax code also increases the management challenges at the IRS and imposes costs on the public. Over time, the Congress, the

Treasury and the IRS ought to work together to find ways to reduce this complexity. In the meantime, however, we must do a better job of helping taxpayers cope with the tax code that exists. These efforts are complementary and can proceed at the same time.

Recognizing the obstacles and risks we face, there are some important assets that we can build on.

Secretary Rubin and Deputy Secretary Summers have made a strong commitment to improving management and service at the IRS and have already begun the modernization process.

The excellent work of the Restructuring Commission, under the leadership of Senator Kerrey and Congressman Portman, has created a consensus on the direction in which the IRS must go.

The renewed interest of the Congress in IRS management issues, as evidenced by the recent oversight hearings organized by Chairman Roth and Senator Moynihan, is an essential force for positive change.

Working with the Treasury Department, the IRS itself has made progress over the last year. The recent actions taken by Acting Commissioner Dolan to improve treatment of taxpayers, the technology modernization blueprint, and the National Performance Review Recommendations are important steps.

And, finally, I have received encouragement and support from the Senators on this Committee with whom I have recently met.

Before concluding, let me share one strong personal belief I have formed based on my 28 years of managing, and that is the tremendous power of open, honest communications in building a successful organization. In the company I have headed, which has grown from 5 people to 7,500, open communications in which problems and mistakes are acknowledged when, inevitably, they occur, have been an essential reason for our ability to adapt and improve. I fully recognize the need to keep taxpayer information confidential, just as in my company we keep client information confidential. Nevertheless, if I become head of the IRS, I will do everything in my power to adopt a policy of open, honest communication within the IRS, with the Congress and with the public, since this is the only way I know how to manage.

Thank you for your attention. I look forward to your questions.

#### RESPONSES TO QUESTIONS SUBMITTED BY SENATOR KERREY

*Question.* As the chairman and co-founder of a computer systems company, how do the computers and technological capabilities of the IRS compare with those of the private sector or other public agencies for that matter?

*Answer.* In my experience there is a wide spectrum of computers and technology in both the private and public sectors. The IRS also has a wide spectrum of information technology. However, its current primary tax processing architecture and design date from the 1960s and rely on batch processing, stove-piped systems—some of which are quite old (over 15 years). Its systems were developed largely on main-frame platforms, although Tax Systems Modernization introduced some stand alone data bases with limited distributed computer processing capabilities. This has increased the Service's difficulties in synchronizing its disparate stand alone systems. In addition, the IRS has redundant telecommunications, privacy and security infrastructure and systems.

As a result of its information technology, the IRS has limited amounts of data available on-line and is unable to present a single, integrated view of its customers' accounts. The IRS Customer Service Representatives (CSR) must access multiple terminals (up to 10 different systems) to respond to taxpayer inquiries. The CSR does not always have the most current data to respond to the taxpayer due to the IRS' batch processing cycles and distributive system which may require up to 10 days to update all the systems. This causes the CSR to rely on aged and incomplete data when responding to a taxpayer. In addition to lacking currency, the information available on-line may not be either sufficient and/or readily accessible to facilitate the research and resolution of taxpayer account issues.

As a result of the limitations in the Service's technology, taxpayers often must make multiple telephone calls to multiple people to resolve their issues. Because of the requirements for specialized training for complex tax issues, taxpayers may be assigned to specialty gates and forced to wait in long queues before reaching a CSR. When taxpayers finally connect to CSRs, the CSRs often may not be able to help them which requires the taxpayer to call again. Often taxpayers are told to write to their service centers which further delays resolution of their problems.

Further, the Service's information technology requires redundant application development which means its systems are difficult and costly to modify and maintain.

The distributed architecture requires extensive resources for support and maintenance. Lack of industry standard components throughout the architecture also reduces its flexibility to meet new challenges. The variety of systems and technology increases the complexity of the training required for development and systems administration. Each system generates management reporting information which is not homogeneous, one with the other, therefore, depriving management of an integrated case management repository. This, in turn, diminishes the Service's capability to effectively manage its customer service and compliance programs.

*Question.* How does the IRS's outmoded technology reduce the agency's efficiency and ability to perform routine tasks?

*Answer.* The IRS originally developed its corporate data base systems in the late 1950's and 1960's to capture, store and process tax return and payment information. These systems were developed largely on mainframe infrastructures which provided for the requisite performance, capacity and security. These systems became known as the "Master Files." As the volume of data mushroomed over the succeeding decades, the IRS experienced difficulty in managing the data, particularly given the increasing demand for data on-line to resolve taxpayer account issues, facilitate examination and collection, as well as provide for improved taxpayer services.

As Tax Systems Modernization evolved in the 1980's and early 1990's, effort focused on delivering taxpayer services and compliance functionality together with limited on-line access to taxpayer account information. These objectives were achieved through highly complex corporate data systems and the development of "stovepiped" systems with stand-alone data bases using the principles of distributed computer processing.

While the modernized systems provided on-line access to limited taxpayer account information, the IRS experienced increasing difficulties synchronizing disparate stand-alone stovepiped data bases and expended significant funds to develop and operate stand-alone systems with duplicative functionality, infrastructures and telecommunications.

Overall, the IRS computing environment evolved into an extraordinarily complex array of systems which may be characterized as follows:

#### *A. Timeliness of Taxpayer Account Information*

The Master File legacy systems and data bases receive data from tax return and payment submissions processing systems, the latter of which are deteriorating, causing excessive downtime and diminishing productivity. Data is transmitted daily from the Service Centers to the Martinsburg Computing Center where it is accumulated during the business week and posted to the Master File data bases, commencing on a Saturday of each week and extending over several days. Thus, the data captured at the Service Centers may not be available on the Master Files for as long as 10 days from the date the information is transmitted to Martinsburg.

Computer on-line access to these data and the ability to update information is further delayed by the need to transmit the updated Master File data to each Service Center. In turn, the Service Center updates the on-line Integrated Data Retrieval Systems (IDRS), the primary system used by Customer Service Representatives (CSR's) to resolve taxpayer account issues.

The elapsed time for the entire process, therefore, from initial data capture at the Service Center to posting of the data on IDRS may exceed two weeks.

#### *B. Fragmentation and Inaccessibility to Taxpayer Account Information*

In addition to lacking currency, the information may not be either sufficient and/or readily accessible to facilitate the research and resolution of taxpayer account issues. For example, each Service Center IDRS data base contains approximately one percent of the total number of taxpayer accounts on the Master File. The sum total available on the 10 Service Center IDRS systems is approximately 10 percent of the total number of taxpayer accounts on the Master File. Although limited in number, they represent the accounts which are most likely to be active.

Further, the IRS neither maintains the source payment documents nor posts either detailed transaction specific payment or tax case information to the Master File. Instead, this data is stored on stovepiped systems with stand-alone data bases which, for the most part, are not integrated with the Master Files or the corporate on-line system, IDRS.

A CSR may need to research a variety of systems to obtain a comprehensive view of all data required to resolve a taxpayer's account issues. Access to these systems is further complicated by the stand-alone distributed systems infrastructure networks supporting these systems, requiring a CSR to potentially access several computer terminal devices to comprehensively identify all potential taxpayer account issues.

### C. Asynchronous Taxpayer Account Information

The IDRS, designed as an end user system, is employed inappropriately as the "hub" system between the Master Files and the stovepiped systems and many of the stovepiped systems were developed from the need to "work around" the limited capabilities of IDRS. Resolving taxpayer account issues often requires considerable research on multiple systems and a series of complex time consuming tasks to update various data bases. Additional delays occur if data fails to post to any one of the systems in the sequential posting processes, thereby further delaying the availability of current authoritative data.

### D. Managing Taxpayer Case Resolution Issues

Most of the stand-alone systems provide for case management functionality which is duplicative (e.g., case creation, case assignment, case processing and management reporting). Further, each system generates management reporting information which is not homogeneous, one with the other, therefore, depriving management of an integrated case management repository and, in turn, diminishing the agency's capability to effectively manage the customer service and compliance programs.

*Question.* How long would the IRS need to acquire "modern" equipment and at what cost?

*Answer.* If we are ever to provide first-rate customer service, we need to rebuild the whole technology base from the ground up. It is difficult to project how long it will take the IRS to acquire modern equipment or to project the total costs because the issue of modernizing the IRS is not simply an issue of modernizing the agency's technology; it also is an issue of modernizing the entire agency.

Given the breadth and depth of Modernization, the IRS is seeking to pursue a partnership with private industry through a Request for Proposals (RFP) for a Prime Systems Integration Services Contractor (the PRIME).

Pursuant to Public Law 104-208, the competitive acquisition of the PRIME must be based on prior private and public sector experience including experience in managing large scale complex computer systems, working with government revenue agencies, showing demonstrable results in reducing costs, increasing productivity, improving service and integrating human performance factors with technological changes.

Although the time required to completely modernize the IRS computing environment is currently unknown, the contract for the PRIME is potentially fifteen years.

A fundamental principle of the Modernization implementation strategy is to incrementally develop, integrate, test, prototype, pilot and deploy Modernization capabilities. To mitigate risk to cost and schedule, the incremental approach applies to all levels of decomposition of the Modernization Blueprint, from the Phase level, which reflects the overall strategic plan for Modernization, to the build elements which represent specific buildable technical products.

As such, Phase I/Release 1 of the Modernization Blueprint focuses on Customer Service and Compliance and is based on the following:

- Critically needed functionality to provide the framework for both the telephonic and systems security infrastructure that would enable a market segment of individual income taxpayers to access the IRS more efficiently via the telephone and Internet and secure access, on-line, to taxpayer account information, thereby facilitating "one-stop shopping" telephonic and Internet resolution of taxpayer account issues;
- Opportunity to accelerate time to market by focusing on only a single market segment (e.g., a segment of the individual income tax taxpayers);
- Minimal dependence on interfacing with legacy or operational IRS systems;
- Application of commercial off-the-shelf (COTS) software, middleware and hardware components wherever feasible; and
- Opportunity to undertake significant performance testing in a prototype and pilot environment to provide "real world" assessment of the Modernization Blueprint's overall architecture (e.g., infrastructure, systems and data security and data management).

The Phase I/Release 1 Customer Service and Compliance Pilot is partitioned into five Subreleases as follows:

- Subrelease 1.1—Automated Self Service, integrates applications and infrastructure to provide taxpayers with rapid responses to Tax Law and other non-account inquiries through secure telephone or Internet access.
- Subrelease 1.2—Infrastructure and Security, provides centralized security components to safeguard access to account-based data resident on the centralized Tax Account Data Base (the first of the "big five" Modernization Data Bases).
- Subrelease 1.3—Increased Legacy Access for More Employees, provides additional employee access to an increased number of legacy systems through a sin-

gle universal secure workstation and integrates the telephone infrastructures and Interim Regional Infrastructure Systems (IRIS) capabilities implemented in the two previous Subreleases.

- Subrelease 1.4—Corporate Data Base Read-Only, establishes the centralized data bases that replace the stovepiped, stand-alone distributed systems of the current environment.
- Subrelease 1.5—On-Line Adjustments, establishes the incremental implementation of call routing, telephone infrastructure, security infrastructure, legacy system access and the first three of five Modernized corporate data bases.

While Phase I/Release 1 represents only one of sixteen Modernization Blueprint Sequencing Plan Releases, Release 1 provides the following functionality for the form 1040 Individual Income Tax Taxpayer:

- 40 percent of the total Modernization Blueprint Business Requirements; and
- 51 percent of the total Modernization Blueprint Customer Service and Compliance Business Requirements.

It is anticipated that the cost to develop, integrate, test, prototype, pilot, deploy and maintain Phase I/Release 1 nationwide would be as follows:

Fiscal year	Development investments	Operations & maintenance investments	Total
1999 .....	\$54,730,368	\$0	\$54,730,368
2000 .....	141,318,464	6,968,164	148,286,628
2001 .....	43,725,845	21,131,653	64,857,498
2002 .....	39,039,328	22,011,511	61,050,839
2003 .....	38,961,213	25,212,826	64,174,039
2004 .....	14,932,486	23,186,109	38,118,595
2005-2013 .....	0	208,674,984	208,674,984
<b>TOTAL .....</b>	<b>\$332,707,704</b>	<b>\$307,185,247</b>	<b>\$639,892,951</b>

It is required that the offerors competing for the PRIME will evaluate the Business Case and Engineering Specifications as part of the offeror's PRIME Technical and Business Proposals to develop and deploy Phase I/Release 1. The Proposal submission date is currently May 1, 1998.

*Question.* Do you believe it would be helpful to have some private sector oversight of the IRS? What added value could those individuals provide?

*Answer.* While I think the issue of private sector oversight of the IRS is an important issue, I also am aware that it is an issue for the Administration and Congress to resolve. Whatever is decided, I will do everything I can to implement the decision.

*Question.* The National Commission on Restructuring the IRS, which I co-chaired, felt that the IRS needed to improve its customer service by adopting some of the best practices of the private sector. I understand the U.S. Postal Service has established customer service "core center" demonstration projects designed to test leading private sector business practices in public institutions. These demonstration projects are conducted as a public-private partnership to obtain the best results. Are you aware of these projects and do you believe they might be worth exploring as a way to improve customer service at the IRS? Does the IRS have the authority to create similar demonstration projects? What, if any, problems would you envision with such a proposal for the IRS?

*Answer.* I expect to meet with Postmaster General Runyon sometime in January 1998. After our meeting, I will be happy to respond to your questions on this topic.

#### RESPONSES TO QUESTIONS SUBMITTED BY SENATOR GRASSLEY

*Question.* In July 1996, the IRS published Rev. Proc. 96-41, related to tax exempt bond arbitrage rules and the prices paid by state and local governments for "open-market escrow" securities. Over the years, Treasury and IRS had been unwilling to provide market participants with any substantial guidance as to how to interpret the "fair market value" requirements, even when formally asked. In Rev. Proc. 96-41, however, the IRS has essentially attempted to impose onerous rules on state and local governments on a retroactive basis. The IRS is using aggressive efforts to attempt coerce state and local governments into entering into settlement agreements to avoid further investigation and audit. Meanwhile, IRS field agents are aggressively pursuing arbitrage enforcement cases with practically no uniform guidance from Washington.

The Rev. Proc. Has been criticized by just about everyone involved in the issue except for the IRS. After numerous meetings with IRS officials for over a year, we're

still at a point where nothing has been done. I wrote to your predecessor, but I only received a non-informative response. I hope we can expect more from you.

So, I'd like to know when are we going to see some genuine cooperation on this issue from the IRS, and when are there going to be changes in this IRS procedure that no one supports?

*Answer.* You've asked about the status of the Service's efforts in reevaluating Revenue Procedure 96-41 regarding voluntary closing agreements and "yield-burning." As you know, the revenue procedure involves an unusually complex area of the tax law. However, the Service is working actively with both the Treasury Department and the Securities and Exchange Commission to develop appropriate standards and coordination mechanisms to permit resolution of cases short of the draconian result produced by a mechanical application of the tax law. Comments received at a January 15, 1997, public hearing on the revenue procedure are being taken into account as well.

*Question.* In addition, what guidance are you going to be giving to field agents, and when are they going to get it, so that state and local governments and their taxpayers will be treated fairly and consistently?

*Answer.* A task force composed of representatives from the field, including agents familiar with the issue, and personnel from Headquarters, have had a series of recent coordination meetings to ensure that all cases under review proceed in a consistent and appropriate manner.

#### RESPONSES TO QUESTIONS SUBMITTED BY SENATOR NICKLES

*Question.* Please explain the established procedures for auditing an individual, corporation, or tax-exempt organization based on an outside complaint?

*Answer.* When an employee in Examination Division receives information of sufficient compliance value to warrant enforcement follow-up concerning a return filed or to be filed and there is no indication of potential fraud, an Examination Information Report (Form 5346) will be prepared and submitted to the employee's immediate supervisor for approval. Information received by Examination personnel which does not relate to an open examination, but which may involve potential fraud, will be recorded on Form 3949, Criminal Investigation Information Item, and forwarded, through channels, to the Chief, Criminal Investigation Division for processing.

If in the course of an examination, an examiner receives information of a direct transaction between the taxpayer under examination and another taxpayer with sufficient compliance value to warrant the examination of a return filed by the other taxpayer and this return would be assigned to the examiner's post of duty, then a request to obtain the filed tax return (Form 5345) will be prepared and submitted to the employee's immediate supervisor for approval. If the immediate supervisor does not approve the request to secure the original return, then Form 5346 (Examination Information Report) should be prepared. All approved Forms 5346 will be referred to the Chief, Planning and Special Programs (PSP).

An approved Form 5346 which relates to a taxpayer filing in another district will be mailed to that district, addressed to the District Director, Attention: Chief, PSP.

All Forms 5346 which relate to district taxpayers will be researched to determine if a return for the same taxpayer and class of tax is open in Examination. If open, the Form 5346 will be associated with the case file.

The Chief, PSP, or designee, will promptly screen the Forms 5346 received.

(1) Those reports not properly completed, not approved, lacking sufficient information, and/or submitted for a filed year, subsequent to one currently being examined, will be returned by the Chief, PSP to the originator's supervisor.

(2) Forms 5346, which do not warrant examination, for any reason, will be destroyed.

Upon receipt of the return with associated Form 5346, the Chief, PSP or designee, will classify the return in light of the information reported. Returns not warranting examination will be closed and Form 5346 will be destroyed. Forms 5346 will not be attached to the return. Once classified and assigned to an Examination group, the audit of a return resulting from an outside complaint is no different than any other examination.

The procedures for classification and selection of tax-exempt organizations for examination from any source, including third-party information referrals, are contained in the Internal Revenue Manual (IRM) Chapters 7900, Identification, Selection, and Classification of Exempt Organization Returns, and 7(10)00, Examination Procedures. The procedures are designed so that no one individual at any level in the organization can alone initiate an examination. At a minimum, a classification specialist, a group manager, and an agent are involved in the decision as to whether an examination is warranted before an examination is initiated.

The Returns Program Manager (RPM) in the Exempt Organizations Key District Office (of which there are four nationwide) is responsible for initially identifying tax-exempt organizations for examination. Working in the context of the annual work plan, which establishes areas of emphasis, the RPM identifies the tax or information returns that have the greatest potential for error. Third-party complaints or referrals are one source for identifying returns with potential for error, though a complaint or referral is only one piece of the information considered in determining whether an examination should be initiated. The RPM, or an individual in his or her office, reviews referrals and makes the initial determination whether the information warrants ordering the organization's return from the appropriate Service Center.

If the RPM determines that an examination is warranted, he or she will forward the return to a group manager. (This may not be done immediately if the group already has a sufficient inventory. The RPM may retain the return until the group's resources allow for an examination to be started). The case file will contain the referral (or referrals, if more than one information item has been received), the applicable returns, and other pertinent information.

The group manager makes a second review to determine if an examination is warranted, and if so, whether the group has the resources to conduct it. These resources include the availability of an agent with the appropriate grade and expertise in the geographic area, the availability of travel funds, if needed, and the availability of any special expertise, for example, a computer audit specialist, that he or she determines will be needed to examine the organization.

If the group manager decides to proceed, he or she will assign the case to an agent, who again reviews the case file. The agent may also "survey" the case by marking it "accepted as filed" or "closed after survey" without contacting the entity. The agent would then attach the information item to the return and forward the file through channels to the service center.

*Question.* Does the IRS require that specific forms to be filled out by agents or supervisors when an outside complaint about an individual, corporation, or tax-exempt actually leads to an audit?

*Answer.* Form 5346 (Examination Information Report) or Form 3949 (Information Report Referral) is used when the information is received. Agents and supervisors who receive tax-related information concerning a tax-exempt organization forward it through Form 5666, EP/EO Information Report. Form 5666 is also used to record analyses of the information.

*Question.* If so, are these complaints and forms maintained by the IRS?

*Answer.* For those returns selected for audit, the complaint and form (Form 5346 or Form 3949) become part of the case file. Those that are without merit, warrant no further action, or where the taxpayer cannot be identified are destroyed. If the return is selected for examination, the Form 5666 and any attached information is attached to the return and remains a part of the examination file.

*Question.* Do you believe an individual, corporations, or tax exempt organization should be informed that the audit is being undertaken based on an outside complaint? Of so, should the complaint letter be disclosed to the entity under audit?

*Answer.* Apart from church tax inquiries and examinations, which are subject to the specific restrictions and requirements of section 7611 of the Code that require the IRS to provide the organization a copy of all information available under FOIA that formed a basis for the inquiry, we do not initially disclose the reason or reasons an individual, corporation or organization was selected for audit. If a taxpayer asks why it was selected for examination, we believe that what should be disclosed depends on the facts and circumstances. Disclosure of the information could jeopardize the complainant's career, family or life. Individuals who have knowledge of tax non-compliance being committed by others would be discouraged from coming forward with that information if they knew that their identity was going to be disclosed. If the information was provided by a confidential informant, or if disclosure would seriously impair federal tax administration, the information would not be disclosed and the IRS would assert the applicable exemptions in 5 U.S.C. § 552(b) (3) and (7) in any Freedom of Information Act request for the information.

*Question.* If a Congressional staff member or Treasury Department staff member or White House staff member alleged a violation of law by an individual, corporation, or tax exempt organization, what paper trail is created and where are those documents maintained?

*Answer.* All outside complaints with respect to an individual or corporation are treated the same. An allegation that an exempt organization is not in compliance with applicable tax laws made by a congressional staff member, Treasury Department employee, or a White House staff member would be handled in the same manner as any other information item.

**Question.** Does IRS have any procedures for handling sensitive individual, corporate or tax exempt organization audits which involve status reports or requests for guidance from higher levels of IRS management? If so, do these procedures involve any documents?

**Answer.** The IRS does not have set requirements for status reports or requests for guidance based on "sensitivity" of individual, corporation, or tax-exempt organization examinations. However, personnel from district offices may brief field or National Office officials as they deem necessary and appropriate. They may also request formal assistance including technical advice on specific issues raised in an examination and technical assistance on procedural questions or technical questions that are not limited to a specific case. Field personnel may also seek informal assistance by telephone from other field personnel or National Office specialists.

The only required reports for cases that could generally be considered "sensitive" are the periodic activity reports on evangelist-related cases and the quarterly activity reports on private schools. These reporting requirements were instituted to enable National Office officials to prepare reports requested by the Subcommittee on Oversight of the Committee on Ways and Means.

IRM 7530, EP/EO Reports Handbook, provides at text 420 of Chapter 400, Reports on EP/EO Operations, that significant matters occurring in the areas of fraud referral, Taxpayer Delinquency Investigation (TDI) referral, the State Attorneys General Program, church tax inquiries, and illegal tax protestor activity should be reported as they occur.

**Question.** If a Congressional or White House complaint is received about possible abuse of law by an individual, corporation, or tax exempt organization, is there always a reply to the complainant? How is such a complaint and reply filed? How does IRS report back to these "political" complainants?

**Answer.** A letter is sent to the complainant thanking him/her for the information and explaining that IRS cannot release any information regarding any IRS action because of the Privacy and Disclosure laws. The reply is filed in official correspondence files and a copy would also be in the taxpayer's administrative file if the information results in an audit. With respect to tax-exempt organizations, the IRS generally responds to all third-party complainants to the extent possible within the constraints of section 6103 of the Code. Section 6103 prevents the IRS from advising complainants about any action it has taken or may take with respect to an exempt organization, other than the fact that the information has been referred to the field. Thus, responses to third-party complainants are limited to acknowledgment of the complaint, a discussion of general principles of applicable law and IRS procedures, and advising the complainant that the matter has been forwarded to the appropriate field office.

The IRS does not respond to the White House on complaints, as the White House role is limited to forwarding citizen correspondence to the IRS for response. The IRS responds directly to the writer.

Other than acknowledging complaints, the IRS does not report back to complainants.

**Question.** If there is a Congressional, Treasury, or White House staff communication to an IRS field office about a possible abuse of tax exempt status, does the field office always notify Headquarters? Are forms used?

**Answer.** If a field office receives a complaint directly from a congressional office, the Treasury, or the White House there is no reporting back to Headquarters.

**Question.** Can you please provide copies of the documents and/or forms the IRS uses to establish audit trail?

**Answer.** Attached are copies of Forms 5346, Examination Information Report and Form 3949, Information Referral Report that are used with respect to individuals and corporations. The primary forms used to establish audit trail for tax exempt organizations are Form 5464, Case Chronology Record, on which the agent records actions taken, Form 5772, EO Workpaper Summary, a checksheet of action items, and Form 5773, EO Workpapers, on which the agent documents examination techniques, issues, facts considered, applicable law, and conclusions. These forms, as well as the agent-generated Revenue Agent Report (RAR) would be included in every examination case file. Examinations initiated as a result of a referral would also include Form 5666, EP/EO Information Report (or a similar memorandum), as well as correspondence from the taxpayer and third parties. Copies of Forms 5346, 3949, 5666, 5464, 5772, and 5773 are attached.



## Examination Information Report (Form 5346)

Information on the use of Information Reports is in IRM 4171 and the AIMS handbook.

### Item

#### Originator's Entries

Enter the complete name and address of the taxpayer and the form number. For individual returns, the last name will appear first, followed by a comma, then the first name and middle initial, if any. For other than individual returns, enter the taxpayer's name as it should appear on the return.

1. Source Code 60 causes the message "Information Report, to be printed in both Items 16 and 33 of the form 5346, Examination Return Charge Out. The Source Code should be changed to 30 when requisitioning a claim.

3. Enter two-digit Master File Tax Account code (MFT).

8. Enter either the EIN or SSN. The first digit of the number must be entered in the left most position. Dashes must be entered.

For Forms 706, 709 and 4638 with SSNs, the SSN must be immediately followed by the letter "V".

For Form 706, the SSN of the decedent must be used, and for Form 709 the SSN of the donor.

10. Enter tax period in YYYYMM format. For example: if the 1990 return is requested, enter 199012. For a Form 706, Estate Tax Return, the entry in this item will be the year and month of death. For Forms 11, 11B, 11C, 730, 2250 and 4638, enter the beginning of the tax period.

11. If the activity code is unknown it should be estimated. When the record comes down from master file, the correct activity code will be automatically entered. The exceptions to automatic updating are substitutes for returns and returns manually reestablished from the retention register. These conditions will carry the activity code which is input, therefore it is important to use the correct activity code.

12. If there is a claim involved, enter the amount of claim (dollars only), and enter the appropriate claim source code in item 2 (source code). Line out the preprinted 60. Dollar amount should be entered in the right most position. For example: a claim for \$10,122.45 is entered as 10122.

13. Originator's name and date.

16. Describe source of information reported in item 22.

17. If source of information from an examined return, enter tax period of the return. For example: if fiscal year return ending September 1997 was examined, enter 199709.

18. Enter form number of return examined, when appropriate.

19. Enter the two-digit district office code in which the return was examined, when appropriate.

22. Describe issues or situations completely. Attach exhibits when necessary.

#### Clerical Entries

9. Enter either the four-digit name control or two-digit check digit. If the request is being submitted for a prior or subsequent year for the same taxpayer, enter the check digit from the Audit label in the case file.

#### Manager Entries

14. Sign and date the information report to indicate approval.

#### Chief, Planning and Special Programs or Chief, Classification Entries

2. To requisition:  
Organization Code 1998 (Field Examination)  
Organization Code 2998 (Office Examination)  
To establish on "Intercept":  
Organization Code 1000 (Field Examination)  
Organization Code 2000 (Office Examination)  
An intercept account remains on the AIMS data base for 28 months.

4. Status Code 06 (Awaiting Classification)

6. This entry applies only when requesting a return to be delivered to a district office other than the requesting district, or a service center return for a district office the district office code is entered. This entry is valid only when the requester and the over-ride district office are served by the same service center.

7. Information reports filed for subsequent year returns: use Push Code 039.  
Information reports filed as the result of inadequate Records Notice: use Push Code 025.

These codes act as push code should be used only for reports about subsequent years. Entering these codes causes a TC 424 to be generated to master file to bring the account under AIMS control even though no record of filing is present.

15. To requisition.

Requester's name, date, or organization symbols

20A. To requisition:  
Check "Secure Return".  
To return to group without input at terminal:  
Check "Close".

20B. Check appropriate box after the return has been reviewed.

#### Terminal Operator Entries

21. When a return being requested is on the AIMS file, the terminal operator records the appropriate data to identify the location of the return for the requester's use.

EP/EO Information Report				5. File Folder Number
1. Forward Report to				6. Source of Information: <input type="checkbox"/> Form 5310 Application <input type="checkbox"/> Other Application <input type="checkbox"/> Amendment <input type="checkbox"/> Prior Year Examination <input type="checkbox"/> Retired Examination <input type="checkbox"/> Unrelated Examination <input type="checkbox"/> Other (Explain below)
2. Organization/Taxpayer Plan Name				
3. Street Address				
4. City, State, & ZIP Code				
7. EIN/ESH	8. Plan No.	9. Tax Period	10. Form Number	11. Future Year (EO)
12. Tax/Adjustment		13. Name EIN of Related Entity		14. Future Year Code (EO)
15. MPT	16. Source Code	17. Activity Code		18. BOL Date
19. Information				
20. Prepared by		21. Date	22. Organization Code	23. Telephone No.
24. Approved by		25. Date	26. Name/Address of Initiating Agency	
27. Action Taken (Attach Additional Sheets if Necessary)				
<input type="checkbox"/> Selected for examination, assigned to Group _____ <input type="checkbox"/> No action taken, currently under examination by Group _____ <input type="checkbox"/> No action taken, currently under examination by DOL _____ <input type="checkbox"/> Other (Explain)				
28. Signature			29. Date	30. Telephone No.



## EPIEO Workpaper Summary

*Complete or use address label for name of plan sponsor/organization, address and EIN*

Plan sponsor or organization name and address <i>(Attach label here)</i>		Examination Results		
		Return form number	Year(s)	Time
EIN		Disposal code and description		Letter number
		Specialist		Date
File folder number	Plan number	Reviewer	Date	

*Indicate with an "X" all completed actions and "NA" for all "Not Applicable" actions for your program.*

EO Examination Program Guide		EP Examination Program Guide	
Item and related actions	"X" or "NA"	Item and related actions	"X" or "NA"
<b>A. Organizational documents</b>	X	<b>A. Plan and trust documents</b>	X
1. Articles of incorporation	X	1. Administrative and prior exam file	X
2. Bylaws	X	2. Proposed amendments timely executed	X
3. Determination letter	X	3. Latest determination letter Dated	X
4. Amendments	X		
<b>B. Current operations</b>	X	<b>B. Current operations</b>	X
1. Activities	X	1. Eligibility, participation & coverage	X
2. Minutes	X	2. Vesting	X
3. Publications	X	3. Deduction within IRC 404 limits	X
4. Legislative and political activities	X	4. Discrimination	X
5. Unrelated trade or business	X	5. Modes of distribution	X
6. Private foundation status	X	6. IRC 415 limitations	X
		7. Minimum funding	X
<b>C. Income and expenses</b>	X	<b>C. Income and expenses</b>	X
1. Sources of income	X	1. Unrelated business income (IRC 511)	X
2. Disbursements	X	2. Acquisition indebtedness (IRC 514)	X
3. Private interest served	X	3. Trust disbursements and sources of income	X
4. Proper UBI expense allocations	X	4. Contributions timely paid	X
<b>D. Balance sheet</b>	X	<b>D. Balance sheet</b>	X
1. Assets used for private benefit	X	1. Prohibited transactions, asset review	X
2. Nature of liabilities	X		
<b>E. Tax liability</b>	X	<b>E. Tax liability</b>	X
1. Unrelated business income tax	X	1. Unrelated business income tax	X
2. Political expenditure tax (IRC 527)	X	2. Excise taxes	X
3. Excess lobbying expenditure tax	X		
4. Excise taxes	X		
<b>F. Package examination</b>	X	<b>F. Package examination</b>	X
1. Subsequent year(s) return(s)	X	1. Related EP returns - 5500 series, 5330, 990 f	X
2. Employment taxes - 940, 941, W-4	X	2. Employment taxes - 940, 941, W-4	X
3. Forms 4720, 990 T, 5578, 5768, 1120-POL	X	3. Forms W-2P, 1099, 1099-R	X
4. Forms 1099, W-2	X	4. Plan sponsor returns 1065, 1120, 990, etc	X
<b>G. Penalties</b>	X	<b>G. Penalties</b>	X
1. IRC 6651: Failure to file tax returns	X	1. IRC 6651: Failure to file tax returns	X
2. IRC 6652(d): Failure to file information returns	X	2. IRC 6652(e)(1): Annual registration	X
		3. IRC 6652(e)(2): Status change notice	X
		4. IRC 6652(f): Failure to file 5500 series return	X
		5. IRC 6690: Statement to participants	X
		6. IRC 6692: Actuarial reports	X
<b>H. Miscellaneous</b>	X	<b>H. Disclosure</b>	X
1. BMF vouchers	X	1. DO - Form 6212	X
2. IRC 6104 notification	X	PBGC Form 6533	X
3. Proper power of attorney	X	2. Proper power of attorney	X
		3. Written authorization - Third Parties	X



**INFORMATION REPORT REFERRAL**

1. **TAXPAYER'S NAME** \_\_\_\_\_ 2. **DBA** \_\_\_\_\_  
 a. **ST ADDRESS** \_\_\_\_\_ a. **ST ADDRESS** \_\_\_\_\_  
 b. **CITY/STATE/ZIP** \_\_\_\_\_ b. **CITY/STATE/ZIP** \_\_\_\_\_  
 c. **SSN** \_\_\_\_\_ c. **EIN** \_\_\_\_\_  
 d. **OCCUPATION** \_\_\_\_\_ d. **PRINCIPLE BUS ACTIVITY** \_\_\_\_\_

3. **MARITAL STATUS** (Circle One) M S HH Div Sep

4. **ALLEGED TAX VIOLATION** (Check All That Apply)

- |   |   |  |  |
|---|---|--|--|
| <input type="checkbox"/> False Exemption  | <input type="checkbox"/> Tax Protester          | <input type="checkbox"/> Failure to Pay              | <input type="checkbox"/> Failure to File             |
| <input type="checkbox"/> False Deductions | <input type="checkbox"/> Unsubstantiated Wealth | <input type="checkbox"/> Unreported Income           | <input type="checkbox"/> Failure to Withhold         |
| <input type="checkbox"/> Multiple Filing  | <input type="checkbox"/> Kickback               | <input type="checkbox"/> Narcotics                   | <input type="checkbox"/> Wagering Tax/Gambling       |
| <input type="checkbox"/> Organized Crime  | <input type="checkbox"/> False/Altered Document | <input type="checkbox"/> Public/Political Corruption | <input type="checkbox"/> Other (Describe in Remarks) |

5. **UNREPORTED INCOME AND TAX YEAR(S)** (Fill in Tax Year(s) and Dollar Amount(s) if Known, e.g. TY96 \$250,000.00)

TY \_\_\_\_\_ \$ \_\_\_\_\_ TY \_\_\_\_\_ \$ \_\_\_\_\_

a. **Remarks** (Briefly Describe Violation - Who/What/Where/When/Why/How)

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

b. Are Books and Records Available?  Yes  No

c. Did caller indicate/say the taxpayer is dangerous?  Yes  No  
 (If yes, forward a copy of this report to Inspection)

d. How did you learn or obtain this information?

\_\_\_\_\_  
 \_\_\_\_\_

6. **CALLER ID**

Name \_\_\_\_\_  
 St. Address \_\_\_\_\_  
 City/State/Zip \_\_\_\_\_  
 Telephone Number (Include Area Code) \_\_\_\_\_

7. **FORM 211** (Claim for Reward)

Requested  Yes  No (No Action Required)  
 (If yes, forward copy of this report to the Informant Claims Examiner)

Attached  Yes  No (No Action Required)  
 (If yes, forward copy of this report and the original Form 211 to the Informant Claims Examiner)

8. **RECEIVED BY** \_\_\_\_\_ **DATE RECEIVED** \_\_\_\_/\_\_\_\_/\_\_\_\_ **OFFICE** \_\_\_\_\_

9. **DISPOSITION TO CRIMINAL INVESTIGATION DISTRICT OFFICE** \_\_\_\_\_

\_\_\_\_ Refer all allegations involving **\$50,000.00 or More Per Year in Unreported Income** to District Office Criminal Investigation

10. **DISPOSITION TO EXAMINATION OFFICE** \_\_\_\_\_

\_\_\_\_ Refer all allegations involving **Less Than \$50,000.00 Per Year in Unreported Income** to Service Center Examination (Classification).  
 (If information was received by a District employee, refer to Examination Division, Planning and Special Programs Branch)

11. **DISPOSITION TO YOUR LOCAL DISCLOSURE OFFICE** \_\_\_\_\_

\_\_\_\_ Refer all allegations involving a violation of non-tax laws enforced by another agency to Disclosure.

12. **DISPOSITION TO COLLECTION DISTRICT OFFICE** \_\_\_\_\_

\_\_\_\_ Refer failure to pay and/or failure to file

13. **APPROVAL - TITLE - DATE** \_\_\_\_\_

**Criminal Investigation Information Item**

b Address		4a Occupation		
		5a Illegal Activity		
b Address				
c City	State Code	ZIP Code		
12a Tax Form No. (MFT entered by S C)		MFT	13 Received by (name, title and D O Code)	
15 Preselect	D O Number	Selector	Group	Approval - Title - Date
16 Disposition				
21 Remarks				

## General Instructions

You are preparing a worksheet that will be used by a keypunch operator. It is most important that the work be done neatly and accurately. Neatness is important because the person reading this sheet will not be able to ask you if "1" means "one," or "L." Form your letters completely in ink. Print all capital letters. Shaded areas are to be keypunched.

## Item Instructions

- 1 D C N - leave blank (for source center use)
- 2a Name of taxpayer—last name (15 spaces maximum), first, MI (10 spaces maximum)
- Individuals—last, first, middle initials (please apply the following guidelines)
- (1) Apostrophes should not be used. For example the name O'Malley will be written O'MALLEY.
  - (2) Use closed spacing for last names. For example the name De Carlo should be written DECARLO.
  - (3) Capitalize all letters. Thus, the name McHenry will be written MCHENRY.
  - (4) First names will be written in full, if available, but not to exceed 9 spaces.
  - (5) The middle initials only will be entered.
  - (6) Names that have initials only will be written without punctuation. For example: L. P. Laughterboatty, will be LAUGHTERBOATTY LP.
  - (7) If a name contains a "Jr" or "Sr" sufficient space should be left in the first name, MI block for inclusion. For example Joseph, Jr. P. Laughterboatty, Jr. will be LAUGHTERBOATTY JOSEVERJRL.
  - (8) If more than one taxpayer is mentioned in the information given a 3949 should be prepared for each individual taxpayer named unless they are married taxpayers. When taxpayers are married enter the husband's name, and refer to the wife's name and S.N. in the remarks section (item 18).
- Business Names (Apply the following guidelines)
- 1) Capitalize, single space and use no punctuation.
  - 2) The beginning "the" in business names will be dropped and the word "and" will always be written as an ampersand "&." The following will always be used to shorten business names:  
 Corporation—CORP  
 Incorporation—INC  
 Company—CO  
 Limited—LTD  
 Associates—ASSOC
  - 3) Business names must often be abbreviated or shortened to fit within the 25 spaces available (last name, first name, MI). Business names should be written starting with the first space in the last name block and continuing disregarding the division between the last - first name, MI blocks. For example, the Jones and Williams Construction Company, Incorporated would be JONES&WILLIAMSCONSTRCOINC. Remember that spaces count as positions.
- 2b. Address - street address and/or P. O. Box of taxpayer
- 2c. City or town, state, zip code - name of city or town, two alpha characters for state (see IRM 9570), and five (5) digit zip code.
- 3a. Social Security Number - enter the social security number if applicable. If married taxpayers, use primary SSN.
- 3b. E I No - enter the employee identification number, if applicable.
- 4a. Occupation - enter the position of the taxpayer and the industry in which engaged, if known.
- 4b. Code
- 5a. Illegal Activity - enter the illegal activity of the taxpayer if applicable.

## 5b. Code

- 6a. Name or ID No. of origin - enter name of originator, if known or applicable. If the name of originator is not known or not to be disclosed, enter "ANON," "CONFIDENTIAL," Identification No., or appropriate designation. If information comes from another government agency, enter the name of the agency and the official title of the person giving the information. (See IRM 9311.8 for special codes.) If from Examination or Collection (other than referrals) indicate "EXAM" or "COLL," as appropriate, and enter the name and the title of employee furnishing the information.

6b-c Address - city, state code, zip code - enter if known.

7. Communication - check the appropriate box and enter the telephone number if available.

8. Source - this item is for Criminal Investigation statistical purposes and should be completed by that division only. Listed below are the current source codes per IRM 9762.

01-Exam R	26-Tax Shel	62-Res Src Inmrt
02-Exam TCMF	27-Other CIB	63-Crtdl Inmrt
03-Exam CI	30-EP/EO	64-Media
10-Coll R	31-Other IRS	70-EPIC
11-Coll CI	50-8300	71-INTERPOL
20-ORP ELF	51-CAIR	72-US Atty
21-ORP P	52-FBAR	73-Other FED Agency
22-Tax Pro	53-CTR	74-Lcl/Sl Gov
23-IRP	54-Casino CTR	75-Pub Rec
24-RET PREP ELF	55-Sus Fin Tm	76-FINCEN
25-RET PREP P	60-Gen Pub	77-Frgn Gov
	61-Crtdl Inmrt	80-Other

9. Tax years - enter taxable periods involved. For example the years 1970, 1971, 1972 and 1973 would be written "7073." If quarterly returns, identify quarters in remarks section (item 21)
10. Nature of tax - check the box that indicates the type of tax involved.
11. Status - check the box that indicates the status of a Claim for Reward, Form 211 (A - F) or Application for Reimbursement, Form 211A (Q - L).
- 12a. Tax Form No. - enter tax form involved.
- 12b. MFT - leave blank.
13. Received by - identify the person originally receiving the communication in IRS and D. O. Code. Enter the date in numeric form, example July 5, 1977 would be 070577.
14. Abbreviated comments - check the box that most nearly describes the alleged violation. Attach all documentations.
15. Preset—  
 D. O. - District Office, number of person selecting the item.  
 Selector - Name of the person selecting the item.  
 Group - Group of the person selecting the item.  
 Approval—Title-Date - Signature—Title-Date signed by the approving official
16. Disposition - the evaluator should initial the appropriate box and enter the date.
17. Criteria for CI Selection - Check the appropriate box(es).
18. Criteria for CI Rejection - check the appropriate box(es).
19. Criteria for Exam Selection - check the appropriate box(es)
20. Examination Division Evaluation.
21. Remarks - brief summary of information received. Use additional sheets as necessary.

*The White House,*

SEP - 4 1897 19

*To the  
Senate, of the United States.*

*I nominate* Charles Rossotti, of the District  
of Columbia, to be Commissioner of Internal Revenue, vice  
Margaret Milner Richardson, resigned.

*William J. Clinton*

DRAFT

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**THE WHITE HOUSE**  
**Office of the Press Secretary**

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For Immediate Release

July 31, 1997

**PRESIDENT NAMES CHARLES O. ROSSOTTI AS  
COMMISSIONER OF THE INTERNAL REVENUE SERVICE**

President Clinton today announced his intent to nominate Charles O. Rossotti to be Commissioner of the Internal Revenue Service.

Mr. Rossotti, of Washington, DC, is Chairman of American Management System, Inc., a company he helped found in 1970. AMS is an independent computer systems and consulting firm with a staff of 7,000 employees and 1996 revenues of more than \$800 million. The international company provides consulting systems development services, from strategic business and technology analysis, to business process renewal and change management. From 1969 to 1970, Mr. Rossotti served as Principal Deputy Assistant Secretary of Defense in the Office of Systems Analysis, an office in which he held various other positions from 1965 to 1969. Upon leaving office in 1970, Mr. Rossotti received the Distinguished Civilian Service award. Mr. Rossotti currently serves on the board of directors of Intersolv Inc. and Georgetown University. He is a member of the Council on Foreign Relations, a trustee of the Committee on Economic Development, a trustee of the George C. Marshall Foundation and a principal of the Council of Excellence in Government. Mr. Rossotti received a B.A., magna cum laude, from Georgetown University in 1962. In 1964, he earned a M.B.A. with high distinction from Harvard Business School.

As Commissioner, Mr. Rossotti would be responsible for administering the vital functions and reform of the IRS, including improving customer service and maximizing the agency's use of information technology.

-30-30-

**SENATE FINANCE COMMITTEE  
STATEMENT OF INFORMATION REQUESTED OF NOMINEE**

**A. BIOGRAPHICAL INFORMATION**

**A1. Name: (Include any former names used.)**

Charles O. Rossotti

**A2. Position to which nominated:**

Commissioner of Internal Revenue

**A3. Date of nomination:**

July 31, 1997

**A4. Address: (List current residence, office, and mailing addresses.)**

Residence: 3314 N Street, N.W., Washington, DC 20007  
Office: 4050 Legato Road, Fairfax, VA 22033

**A5. Date and place of birth:**

January 17, 1941  
New York, New York

**A6. Marital status: (Include maiden name of wife or husband's name.)**

Married (wife - Barbara Margulies Rossotti)

**A7. Names and ages of children:**

Allegra Jill Rossotti Rich, age 27  
Edward Charles Rossotti, age 25

**A8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)**

St. Cecilia High School, Englewood, New Jersey, 1954-1958  
Georgetown University, Washington, DC, A.B., Magna Cum Laude, 1958-1962  
Harvard Business School, Boston, MA, MBA with high distinction, 1962-1964

- A9: Employment record:** (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)  
 Boston Consulting Group, May 1964-July 1965; Boston, MA; employed as member of management consulting staff (note: at that time, the company was known as the management consulting division of the Boston Company).  
 Office of the Secretary of Defense, Assistant Secretary for Systems Analysis; October 1965-January 1970; The Pentagon, Washington, DC. Started as GS13 analyst. In 1969 was promoted to Principal Deputy Assistant Secretary (Systems Analysis).  
 American Management Systems, Inc.; February 1970-present; Fairfax, VA. Co-founder and director of company since founding; President, 1970-1992; Chief Executive Officer, 1981-1993; Chairman, 1989-present.

- A10: Government experience:** (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)

I have held no government positions except as listed in answer to question A9.

- A11: Business relationships:** List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.)

Affiliations with Business Entities:

- |            |  |
|------------|--|
| 10/63-3/78 | J and O Enterprises, New Jersey Corporation (Stockholder and Director) *<br><i>Company changed name to Vicki Enterprises.</i>    |
| 3/78-2/83  | Vicki Enterprises, New Jersey Corporation (Stockholder and Director) *   |
| Early 70s  | Carey International, Inc. (Member, Board of Directors)   |
| 1973-Pres  | DBS Inc. (Member, Board of Directors)  |
| 12/73-4/92 | Rossotti Consultants Associates, New Jersey Corporation (Director, Vice-President) *   |
| 7/86-2/93  | Betchar Realty Corporation, New York Corporation (Director and Executive Vice-President) *                                       |
| 2/93-Pres  | Betchar Realty Company, L.L.C. (President) *   |
| 1/87-4/91  | Index Technology Corporation (Member, Board of Directors)<br><i>Index Technology Corporation was acquired by INTERSOLV, Inc.</i> |
| 5/91-Pres  | INTER SOLV, Inc. (Member, Board of Directors)  |
| 4/87-11/89 | Artificial Intelligence Corporation (Member, Board of Directors)   |

9/88-12/91	Sovran Bank, N.A. (Member, Board of Directors) <i>Sovran Bank, N.A. was acquired by NationsBank Corporation.</i>
12/91-3/95	NationsBank of Virginia, N.A. (Member, Board of Directors) <i>NationsBank of Virginia, N.A. merged with NationsBank, N.A.</i>
3/95-9/95	NationsBank, N.A. (Member, Board of Directors)
3/90-4/95	Caterair International Corporation (Member, Board of Directors)

\* = Private family company

American Management Systems, Inc. Affiliations:

2/70-Pres	American Management Systems, Inc. (Director)
2/89-Pres	American Management Systems, Inc. (Chairman)
8/81-9/93	American Management Systems, Inc. (Chief Executive Officer)
2/70-10/92	American Management Systems, Inc. (President)
12/86-6/95	Data Base Management, Inc. (Director-Chairman)
12/89-Pres	AMS Management Systems Australia Pty Ltd. (Director)
4/81-1/85	Executive Systems, Inc. (Director)
9/83-Pres	AMS Management Systems Canada Inc. (Director)
6/90-Pres	AMS Management Systems Deutschland GmbH (Director)
1/90-Pres	AMS Management Systems Europe, S A/N.V. (Director)
7/89-Pres	AMS Management Systems U.K. Ltd. (Director)
6/93-Pres	AMS Management Systems U.K. Ltd. - Branch Office in Portugal (Director)
2/88-12/89	Loecus Informatics, Inc. (Director)

The following partnership interests were passive investments over which I had no management control or influence. However, for certain periods my interest exceeded 5%:

1987-1991	Executive Technology, L.P.
1979-1989	Morrow Building III
1985-Pres	Magazine Associates (Combined total of individual ownership interests of Charles O. Rossotti and Barbara M. Rossotti exceeds 5%.)

I have not listed investment partnerships in which I was a limited partner with less than 5% interest.

Trusts:

11/89-Pres	Edward Charles Rossotti Irrevocable Trust (Trustee)
4/88-Pres	Allegra Jill Rossotti Rich Irrevocable Trust (Trustee)
9/92-Pres	Rossotti Foundation (President)

Non-profit Organization Affiliations:

3/69-6/77	Georgetown University (Member, Board of Directors)
1978-1981	The Washington Opera (Member, Board of Directors)

1979-1985 Potomac School (Member, Board of Directors)  
 4/80-9/89 Georgetown University School of Business (Member, Board of Visitors)  
 6/89-3/93 Corporation Against Drug Abuse (Trustee)  
 3/93-6/97 Corporation Against Drug Abuse (Chairman)  
 1987-1994 National Cathedral School (Trustee)  
 2/93-Pres George C. Marshall Foundation (Trustee)  
 4/90-5/91 Woodstock Theological Center (Trustee)  
 5/91-5/97 Woodstock Theological Center (Chairman)  
 8/92-9/96 Graduate School of Industrial Administration, Carnegie Mellon University  
 (Member, Business Advisory Council)  
 11/92-Pres Georgetown University (Member, Board of Directors)

**A12: Memberships: (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)**

1/82-Pres The Center for Excellence in Government (Principal)  
 6/89-Pres Council on Foreign Relations (Member)  
 1993-1994 Tax Reform Act Coalition (Member, Steering Committee)  
 5/93-Pres Committee for Economic Development (Trustee)  
 6/93-Pres Atlantic Council of the U.S. (Councillor)

**A13: Public affiliations and activities:**

**a: List all public offices for which you have been a candidate.**

None

**b: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.**

Member of finance committee for reelection of Congressman Tom Davis of Virginia during 1996 congressional elections.

**c. Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 10 years.**

2/26/97	Virginia Victory Fund	\$5,000
12/16/96	Rust for Delegate	\$500
11/18/96	Friends of Coleman Andrews	\$4,250
11/15/96	Friends of Jeannemarie Devolites	\$250
10/4/96	Fairfax County Republican Committee	\$1,000
10/4/96	Friends of John Warner 1996 Committee (Primary Debt)	\$1,000
10/4/96	Friends of John Warner 1996 Committee (General)	\$1,000
9/27/96	Friends of Tom Davis	\$1,000
6/3/96	The Virginians for Don Beyer	\$1,000
4/24/96	Republican National Committee	\$1,000
3/14/96	Fairfax County Republican Committee	\$250
2/6/95	Tom Davis for Congress	\$1,000

12/1/95	Alexander for President	\$1,000
9/15/95	Paul Brubaker for State Senate	\$100
8/30/95	Joint Republican Caucus of Virginia General Assembly	\$2,500
8/3/95	Gary Jones for Chairman	\$250
6/16/95	Devolites for Supervisor	\$250
5/16/95	Callahan Campaign Committee	\$500
3/30/95	Gorgone for Supervisor	\$250
3/16/95	Friends of Warren Barry for Senate Committee	\$500
1/16/95	Tom Davis for Congress	\$1,000
10/13/94	Tom Davis for Congress	\$1,000
8/17/94	Carol Schwartz for Mayor Committee	\$200
1/31/94	Tom Davis for Congress '94	\$1,000
9/17/93	Don Beyer '93	\$250
11/30/92	Virginia Democratic Caucus	\$1,000
10/20/92	Friends of Les Aspin Committee	\$250
7/28/92	Sandy Pensler - Pensler for Congress	\$200
6/18/92	Friends of Frank Wolf	\$250
6/5/92	Williams for Governor '93	\$500
6/5/92	Friends of Les Aspin	\$200
3/3/92	Friends of Les Aspin	\$150
2/27/92	Tsongas for President	\$1,000
12/12/91	Friends of Frank Wolf '92	\$250
10/28/91	Friends of Les Aspin	\$200
9/17/90	Friends of Les Aspin	\$100
7/23/90	Schroeder for Congress Committee, Inc.	\$500
6/12/90	Friends of Les Aspin	\$250
3/27/90	Friends of Les Aspin	\$250
10/22/87	Association of Data Processing Service Organizations P A C	\$500
8/26/87	Schroeder 1988	\$250

**A14: Honors and Awards: (List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievement.)**

Received Department of Defense Distinguished Civilian Service Award in 1970.

**A15: Published writings: (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)**

"Two Concepts of Long Range Planning," published by Boston Consulting Group, 1965.

"A Spread of Knowledge" (growing use of intranets), *Financial Times*, December 1996.

"The Computer Alternative" (in-house minicomputers vs. service bureaus), *Infosystems*, September 1982.

"The Great Debate About Computer Services," *Association Management*, November 1983.

"The Consultant's Perspective," Chapter 14, Information Technology In Action. Trends and Perspectives, overall book edited by Richard B. Wang, Yourdon Press, 1993

- A16: Speeches:** (List all formal speeches you have delivered during the past five years which are on topics relevant to the position for which you have been nominated. Provide the Committee with two copies of each formal speech.)

I have given no speeches on topics relevant to the position of Commissioner of Internal Revenue.

- A17: Qualifications:** (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

My most important qualification stems from my experience during the last 27 1/2 years at American Management Systems, Inc. (AMS), a firm which I co-founded and have lead as President, CEO, and Chairman during various periods. AMS's business is helping large corporations and other institutions improve organizational performance by taking advantage of information technology. This has provided me two valuable categories of experience: managing the growth of AMS itself, and working with a wide range of client organizations.

At AMS, I have managed the organization during transition from a small start-up to a current organization of approximately 7000 employees operating internationally in about 50 locations. This has included recruiting, organizing, compensating and motivating many managers and staff, as well as financial accountability for the overall company's results. As a technology-based company, it has also included managing many technological transitions over the past 27 years. As head of a publicly owned company since 1979, I have dealt regularly with the press and public investors.

My work with AMS clients has provided equally valuable experience. These clients are large financial institutions, telecommunications firms, state government agencies, and technology companies. In most cases, these clients were engaged in major initiatives to improve and change their businesses or operations by redesigning business processes and implementing new technology. Success in these initiatives required understanding the client's business and organization as well as technology.

Two other activities have also provided me valuable experience. My work from 1965 to 1970 in the Office of the Secretary of Defense provided valuable experience in the inside of a large Federal agency. My service on various corporate and non-profit boards of directors has also provided me experience and perspective on the workings of a wide range of large and small organizations as well as experience working with boards and oversight groups.

**B. FUTURE EMPLOYMENT RELATIONSHIPS**

- B1: Will you sever all connections with your present employers, business firms, associations, or organizations if you are confirmed by the Senate? If not, provide details.**

I will retain my interest, and those interests which are attributed to me, in the stock of American Management Systems, Inc. I also intend to retain the positions of Trustee of two irrevocable trusts I established for the benefit of my children, President of the Rossotti Foundation and President of Betchar Realty Company, L.L.C.

I will sever all other connections with employers and other organizations with which I am affiliated as officer, trustee or otherwise. I would like to retain my membership in the Council on Foreign Relations.

- B2: Do you have any plans, commitments, or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, provide details.**

I have no plans, commitments or agreements to pursue outside employment of any kind during my service in the government.

- B3: Has any person or entity made a commitment or agreement to employ your services in any capacity after you leave government service? If so, provide details.**

I have no commitments or agreements for employment after government service.

- B4: If you are confirmed by the Senate, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? If not, explain.**

I expect to serve through the Presidential term.

**C. POTENTIAL CONFLICTS OF INTEREST**

- C1: Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.**

There are three categories of investments and relationships that could give rise to conflicts of interest with the performance of my official duties if I am confirmed a Commissioner of Internal Revenue. These are:

- (1) my ownership, and ownership interests which are attributed to me, of stock in AMS;
- (2) my or my wife's ownership of other securities or interests in investment partnerships; and
- (3) my wife's law practice with Shaw, Pittman, Potts & Trowbridge.

- C2: Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.**

None other than those listed in C1.

- C3: Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat, or modification of any legislation or affecting the administration and execution of law or public policy. Activities performed as an employee of the Federal government need not be listed.**

In 1993, AMS was a member of the steering committee of the Tax Reform Action Coalition which opposed higher corporate tax rates and also opposed preferences such as the investment tax credit. I wrote one letter to the chairman of the Ways and Means Committee supporting the Coalition position.

- C4: Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Provide the Committee with two copies of any trust or other agreements).**

I place extremely high importance on compliance with all ethical standards, including avoidance of conflicts of interest. If I become aware of any potential conflict of interest or circumstances which might create even the appearance of a conflict of interest with the performance of my official duties following appointment as Commissioner of Internal Revenue, I will promptly consult with the Designated Agency Ethics Official of the Department of Treasury and implement the DAEO's recommendations, in order to comply fully with all applicable laws and regulations.

In addition, the following steps will be taken to resolve each category of potential conflict of interest identified in the answer to question C1:

1. AMS. AMS has two contracts with the Department of Treasury and two contracts with the Internal Revenue Service. I have no personal knowledge of the specific terms of these contracts. If I am confirmed, I will establish procedures so that matters related to these contracts will not come before me. Moreover, I have requested AMS to establish procedures to notify appropriate officials at the Department of Treasury about future matters involving the IRS and AMS so that I can either recuse myself from them or take other appropriate actions to avoid any potential for a conflict of interest.
2. Other investments. With respect to my financial interests and those attributable to me, other than the holdings of AMS, I will either divest the investments, place them into a Qualified Blind Trust pursuant to 5 U.S.C. App. § 102(f)(3) or recuse myself from any particular matter which could have a direct and predictable effect on them.

3. Barbara M. Rossotti's law practice. [I will recuse myself from personal and substantial participation in any particular matter which directly and predictably affects Shaw, Pittman, Potts & Trowbridge. I will also disqualify myself from participating in any particular matter involving any person for whom my wife is, to my knowledge, personally serving as attorney, or with respect to particular matters in which the law firm of Shaw, Pittman, Potts & Trowbridge represents any person, unless I receive specific authorization to participate in such a matter from agency ethics officials.

In order to avoid even the appearance of a conflict of interest as a result of my past associations with non-profit and other affiliations listed herein, I will recuse myself from any matters directly affecting these organizations for a period of at least one year from appointment.

- C5: Two copies of written opinions should be provided directly to the Committee by the designated agency ethics officer of the agency to which you have been nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position.
- C6: The following information is to be provided only by nominees to the positions of United States Trade Representative and Deputy United States Trade Representative:

Have you ever represented, advised, or otherwise aided a foreign government or a foreign political organization with respect to any international trade matter? If so, provide the name of the foreign entity, a description of the work performed (including any work you supervised), the time frame of the work (e.g., March to December 1995), and the number of hours spent on the representation.

Not applicable.

#### D. LEGAL AND OTHER MATTERS

- D1: Have you ever been the subject of a complaint or been investigated, disciplined, or otherwise cited for a breach of ethics for unprofessional conduct before any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

- D2: Have you ever been investigated, arrested, charged, or held by any Federal, State, or other law enforcement authority for a violation of any Federal, State, county or municipal law, regulation, or ordinance, other than a minor traffic offense? If so, provide details.

No.

**D3: Have you ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.**

The only matter in which I have been involved as a party in interest in any administrative proceeding or civil litigation was a traffic accident case.

On May 29, 1993, a complaint was filed in Superior Court of the District of Columbia by Ms. Rahel Yacob concerning a traffic accident that occurred at the intersection of 33rd and M Streets, N.W. on June 1, 1990. The complainant alleged that the collision was "due to the defendant's (i.e. Charles O. Rossotti) negligence and failure to yield to oncoming traffic from the westbound direction." This suit was defended by Aetna Casualty and Surety Company and was settled after an arbitration hearing at Gartrell and Associates in Silver Spring, Maryland, on January 5, 1994. This is the only lawsuit in which I have been named as a defendant or a third party.

From time to time, AMS has been subject to administrative proceedings and civil litigation. During the past ten years, the principal matters have been:

As reported in AMS's Form 10-K for the year ended December 31, 1995 and filed April 1, 1996, Andersen Consulting L.L.P. ("Andersen") sued AMS on July 20, 1995, claiming copyright infringement and appropriation of trade secrets, and seeking injunctive relief as well as damages. On August 25, 1995, the United States District Court for the Southern District of New York, in which the suit was pending, denied Andersen's request for a preliminary injunction based on Andersen's delay in filing suit.

On August 30, 1995, AMS served its answer together with counterclaims against Andersen. In its answer, AMS denied any liability by Andersen. AMS claimed no trade secret protection exists in the concepts cited by Andersen and that AMS has utilized no confidential information of Andersen. AMS claimed that Andersen defamed AMS and attempted to interfere with AMS's contracts and opportunities by disseminating false statements regarding AMS. On April 29, 1996, AMS amended its answer and counterclaim to add additional counterclaims against Andersen for trade secret misappropriation and unfair competition.

On June 28, 1996, AMS and Andersen settled their dispute. On July 8, 1996, the parties filed with the Court a notice of dismissal with prejudice of all claims and counterclaims.

By letters dated May 2, 1991 to AMS, the Environmental Protection Agency ("EPA") submitted a claim for repayment of the sum of \$47,865.42 under Contract No. 68-01-7002 and the sum of \$93,097.00 under Contract No. 68-01-7489. In its letters, EPA asserted that AMS was improperly paid under the subject contracts for the services of certain subcontractors who allegedly were performing "personal services" in violation of federal procurement and personnel laws. AMS denied the allegation in the EPA letters dated May 2, 1991, although by letter dated February 7, 1992, it offered to repay EPA the sum of \$2,442 because of an inadvertent error in the form of invoicing an item. AMS identified the mistake during the course of an internal review of the billing practices on Contract No. 68-01-7489.

On March 12, 1992, the EPA issued a Notice of Proposed Debarment, alleging that the Corporation improperly assisted EPA officials by temporarily hiring individuals as subcontractors pending the completion of the process required for the individuals to become government employees at EPA. EPA further alleged that the Corporation's invoices to EPA for

these individuals were false because such individuals were working partly as de facto government employees rather than as subcontractors to the Corporation working on approved task orders. Thirteen task orders, for a total of \$148,000 were cited.

The Corporation met with officials of EPA and offered proposed terms of settlement without admitting the substance of EPA's allegations. Under the Corporation's proposed terms of settlement, which EPA incorporated into a draft settlement agreement for purposes of discussions with the Corporation, AMS proposed to refund \$140,962.41 received pursuant to the disputed invoices, pay EPA the sum of \$25,000, which EPA indicated represented a portion of the costs of EPA's investigation and the estimated costs of future audits, and would implement enhanced compliance procedures designed to prevent the occurrence of actions such as those alleged by EPA to have occurred.

The settlement agreement was signed, effective April 14, 1992, and the Notice of Proposed Debarment was withdrawn. Under the terms of the settlement, the corporation has no restrictions on its ability to do business with Federal agencies.

In addition to these two matters, in the last five years, AMS has been party to 16 administrative proceedings with employees concerning various equal employment disputes. I was not personally involved in or a party to any of these disputes. Of the 16 cases, 9 were decided by the agency in AMS's favor, 1 was withdrawn, 3 were settled with the employees and 3 remain outstanding.

**D4: Have you ever been convicted (including pleas of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense? If so, provide details.**

No.

**D5: Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.**

None.

#### **E. TESTIFYING BEFORE CONGRESS**

**E1: If you are confirmed by the Senate, are you willing to appear and testify before any duly constituted committee of the Congress on such occasions as you may be reasonably requested to do so?**

Yes.

**E2: If you are confirmed by the Senate, are you willing to provide such information as is requested by such committees?**

Yes.

## COMMUNICATIONS

**STATE OF KANSAS**  
Bill Graves, Governor

Office of the Secretary  
Kansas Department of Revenue  
915 SW Harrison St.  
Topeka, KS 66612-1588



Office of the Secretary

**DEPARTMENT OF REVENUE**  
John D. LaFaver, Secretary

(785) 296-3041  
FAX (785) 296-7728  
Hearing Impaired TTY (785) 296-3909  
Internet Address: [www.ink.org/public/tdor](http://www.ink.org/public/tdor)

October 24, 1997

Honorable William Roth, Chairman  
Senate Finance Committee  
219 Dirksen Senate Office Building  
Washington, DC 20510

Dear Chairman Roth:

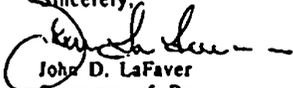
I am writing to commend the nomination of Charles Rossotti as Commissioner of the Internal Revenue Service and urge your committee to recommend his confirmation to the United States Senate.

American Management Services has been the prime partner of the Kansas Department of Revenue as we have totally restructured the tax administration process. Mr. Rossotti, as Chairman of American Management Services, Inc., has served as my personal liaison to that firm. That effort, Project 2000, focuses on building a financial services organization whose mission it is to provide world class customer service. This mission fundamentally shifts the emphasis of the agency away from being a "tax police force" to treating taxpayers as valued customers. To accomplish this seemingly simple task is, in fact, extremely complex -- involving substantial change to the agency culture, its business processes, organizational structure and enabling technology. Building strong, working partnerships within the agency and with its stakeholders are key to making this project a success.

The efforts of Mr. Rossotti and his firm have been indispensable in building a customer-focused department of revenue. While I, personally, will very much miss my present association with Mr. Rossotti, his skills and approach to meeting difficult management challenges are obviously much needed at the Internal Revenue Service.

I hope your committee will recommend his confirmation to this important post.

Sincerely,

  
John D. LaFaver  
Secretary of Revenue

# Tax Executives Institute, Inc.

1200 G Street, N.W., Suite 300  
Washington, D.C. 20005-3802  
Telephone: 202/638-5601  
Fax: 202/638-5607

October 13, 1997

The Honorable William V. Roth  
Chairman, Committee on Finance  
219 Dirksen Senate Office Building  
Washington, D.C. 20510

Dear Chairman Roth:

On behalf of Tax Executives Institute, I am writing to encourage the Committee on Finance to move expeditiously in scheduling confirmation hearings on Charles O. Rossotti to serve as Commissioner of Internal Revenue. Although Michael P. Dolan has served admirably as acting Commissioner since the resignation of Margaret M. Richardson earlier this year, we believe it is long past time to complete the Internal Revenue Service's management team. Indeed, recent congressional hearings on the tax agency — both the problems that exist and the steps that are necessary to correct them — underscore the need for the agency, the Treasury Department and the Clinton Administration generally, and Congress to get on with the task of reforming the IRS.

Tax Executives Institute is the principal association of corporate tax executives in North America. TEI is a nonpartisan, not-for-profit membership association that represents approximately 5,000 in-house tax professionals employed by 2,800 of the leading companies in the United States and Canada. TEI is dedicated to the development and effective implementation of sound tax policy, to promoting the uniform and equitable enforcement of the tax laws, and to reducing the cost and burden of administration and compliance to the benefit of taxpayers and government alike.

TEI is supportive of Congress's recent efforts to improve the tax system and to enhance taxpayer rights. I was pleased and honored to have been asked by the House Committee on Ways and Means to testify recently on proposals to restructure the Internal Revenue Service, and hope to be accorded a similar opportunity before the Committee on Finance. TEI

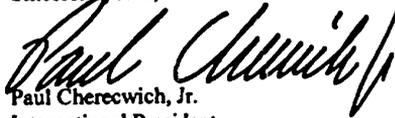
The Honorable William V. Roth  
Chairman, Committee on Finance  
October 13, 1997  
Page Two

believes that pending legislative proposals hold much promise for improving the management and oversight of the IRS, and we pledge our ongoing support for good-faith efforts to improve the tax system. We sincerely believe that a key step is installing a proven manager as Commissioner and letting that person get on with the job.

Since the first reports of Mr. Rossotti's appointment surfaced in June, there has been nothing but praise for the management skills and business experience he will bring to the IRS. To be sure, the next Commissioner of Internal Revenue faces formidable tasks. The Commissioner must cope with a management reorganization and oversee an absolutely necessary updating of the agency's computer system. The Commissioner must also work with the Administration and Congress in restructuring the agency's structure, governance, and oversight. And the next Commissioner must take the steps necessary to demonstrate to the current IRS workforce, Congress, and the American people that the IRS can effectively meld its customer service and compliance functions, collecting the revenues necessary to fund the government while treating taxpayers with the respect, efficiency, and professionalism they are due.

In TEI's view, it is time to permit Mr. Rossotti to get on with the daunting tasks at hand. Consequently, we urge the Senate Committee on Finance to schedule a confirmation hearing on his nomination as soon as possible. Delaying his confirmation further runs the risk of impeding change rather than facilitating it.

Sincerely yours,



Paul Cherecwich, Jr.  
International President

cc: Hon. Daniel Patrick Moynihan



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

ASSISTANT SECRETARY

October 22, 1997

The Honorable William V. Roth, Jr.  
Chairman  
Committee on Finance  
United States Senate  
Washington, D. C. 20510

Dear Mr. Chairman:

I am writing in response to your request for information about Charles Rossotti's management plans for the Internal Revenue Service. Because he is not yet the Commissioner, Mr. Rossotti is not sufficiently familiar with the strengths and weaknesses of the current management structure to decide upon changes at this time. However, creating a team to execute his vision of improving customer service at the IRS is certain to be one of his first challenges.

Committee staff have inquired about the ability of Mr. Rossotti, if confirmed, to expeditiously bring into the IRS key personnel of his choosing to assist him in bringing about critical management reforms. Enclosed is a summary of information provided orally to your Committee staff by our Office of General Counsel.

We appreciate your interest in the management challenges facing the IRS and your desire to help ensure that the next Commissioner is successful. We look forward to continuing to work with you in this important endeavor.

Sincerely,

*Linda L. Robertson (mlr)*

Linda L. Robertson  
Assistant Secretary  
(Legislative Affairs and Public Liaison)

Enclosure

cc: The Hon. Daniel Patrick Moynihan

**Options for *quickly* appointing a limited number of key management experts:**

- (1) Non-Career, limited term, or limited emergency SES appointments**
- Salary range (in D.C.): \$103,897 - 123,100.
  - Appointments made without the competitive process required for career appointments.
  - limited term appointments may be made for up to three years; limited emergency appointments may be made for up to 18 months.
  - May only be appointed to "general" SES positions.
  - IRS currently has 210 "career-reserved" positions, 18 of which are vacant; three "general" SES positions, all of which are vacant; and six undesignated slots.
  - Departmentwide, Treasury may utilize 564 SES slots, 435 of which must be used for career-reserved positions. Of the 54 positions currently vacant Departmentwide, only 25 may be filled, given the current Treasury SES allocation of 564 slots. Actions to fill some of these vacancies are pending.
  - Except for positions which by regulation must be "career-reserved," Treasury may designate positions as "general" or "career-reserved" at the time they are established, provided that it maintains the current Departmentwide floor of 435 "career-reserved" positions.
  - Existing "career-reserved" positions may be redesignated as "general" with OPM approval.
- (2) Detail, reassign or transfer selected members of the SES (from other agencies or other parts of Treasury)**
- Details may be made for successive increments of 120 days.
  - Noncareer appointees may be reassigned or transferred only to "general" positions.
- (3) Appoint experts or consultants for temporary or intermittent employment (5 U.S.C. § 3109)**
- Salary rates up to \$115,700 (with OPM approval of locality pay, may increase to \$123,000).
  - May not supervise employees (although an expert can act as team leader or director of a specific project) and may not make final decisions on substantive policies.