

**COLLECTED AND WASTED: THE IRS SPENDING
CULTURE AND CONFERENCE ABUSES**

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

JUNE 6, 2013

Serial No. 113-79

Printed for the use of the Committee on Oversight and Government Reform



Available via the World Wide Web: <http://www.fdsys.gov>
<http://www.house.gov/reform>

U.S. GOVERNMENT PRINTING OFFICE

86-795 PDF

WASHINGTON : 2014

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
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COLLECTED AND WASTED: THE IRS SPENDING CULTURE AND CONFERENCE ABUSES

Thursday, June 6, 2013

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
WASHINGTON, D.C.

The committee met, pursuant to call, at 9:31 a.m., in Room 2154, Rayburn House Office Building, Hon. Darrell E. Issa [chairman of the committee] presiding.

Present: Representatives Issa, Mica, Turner, Duncan, Jordan, Chaffetz, Walberg, Lankford, Gosar, DesJarlais, Gowdy, Farenthold, Lummis, Woodall, Massie, Meadows, Bentivolio, DeSantis, Cummings, Maloney, Norton, Tierney, Clay, Connolly, Speier, Pocan, Duckworth, Kelly, Cardenas, Horsford, and Lujan Grisham.

Staff Present: Ali Ahmad, Communications Advisor; Richard A. Beutel, Senior Counsel; Molly Boyd, Parliamentarian; Lawrence J. Brady, Staff Director; Ashley H. Callen, Senior Counsel; Caitlin Carroll, Deputy Press Secretary; Sharon Casey, Senior Assistant Clerk; Steve Castor, General Counsel; John Cuaderes, Deputy Staff Director; Carlton Davis, Senior Counsel; Kate Dunbar, Professional Staff Member; Adam P. Fromm, Director of Member Services and Committee Operations; Linda Good, Chief Clerk; Tyler Grimm, Senior Professional Staff Member; Frederick Hill, Director of Communications and Senior Policy Advisor; Christopher Hixon, Deputy Chief Counsel, Oversight; Mark D. Marin, Director of Oversight; Ashkok Pinto, Chief Counsel, Investigations; Laura Rush, Deputy Chief Clerk; Scott Schmidt, Deputy Director of Digital Strategy; Rebecca Watkins, Deputy Director of Communications; Krista Boyd, Minority Deputy Director of Legislation/Counsel; Kevin Corbin, Minority Professional Staff Member; Jennifer Hoffman, Minority Press Secretary; Carla Hultberg, Minority Chief Clerk; Elisa LaNier, Minority Deputy Clerk; Lucinda Lessley, Minority Policy Director; Dave Rapallo, Minority Staff Director; and Rory Sheehan, Minority New Media Press Secretary.

Chairman ISSA. The committee will come to order.

The Oversight Committee's mission statement most appropriately is that we exist to secure two fundamental principles. First, Americans have a right to know that the money Washington takes from them through the IRS is well spent. And second, Americans deserve an efficient, effective government that works for them.

Our duty on the Oversight and Government Reform Committee is to protect these rights. Our solemn responsibility is to hold government accountable to taxpayers, because taxpayers have a right

to know what they get from their government. It's our job to work tirelessly in partnership with citizen watchdogs, including our IGs, to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy.

Today, more than any other hearing, we revisit the kind of waste and the kind of failure to secure taxpayers' hard-earned money than I can remember in history. I was shocked when the GSA, the body that was supposed to be concerned about the entire Federal bureaucracy having reasonable per diems and spending within limits, doing things properly, determining what would be on a schedule and what it would cost, I was shocked when I found out that they threw themselves parties. But to find out that not only does the IRS take your money, not give you proper answers, and then when it comes to tens of millions of dollars use it in a way that is, at best, maliciously self-indulgent.

To spend more than you would have spent by normal negotiations for rooms is unthinkable for any agency, but when it's the IRS and they give to their own employees benefits, such as local employees in Anaheim, and then fail to file W-2s for that income, the IRS effectively was guilty of tax evasion. And saying you don't know doesn't help you, doesn't give you an out as a taxpayer. It certainly shouldn't give the IRS an out when they're using taxpayer's money.

Professional education is critical, and the IRS more than any other organization needs to be well trained, needs to understand not just the fundamental laws, but a long history of rulemaking and Federal cases that determine what you do or don't pay, what you're allowed to do or not allowed to do. And quite frankly, they need to be trained to treat the taxpayer as a customer and not a debtor.

That and more justifies, when appropriate, travel, when appropriate, visits to the very companies and individuals from whom they receive the revenue that we in government spend. And I want to say here, and hopefully my ranking member will share this, we want the Federal workforce to feel that when they have justified travel, reasons to go and have meetings, reasons to use hotel rooms or conferences, that they do so. We don't want Washington think, or Cincinnati think to be no training, no travel, no interaction. Just the opposite. We want to get this right.

Now, many will say \$50 million over these many conferences is inherently wrong. I will say for the tens of thousands of workers who could have received great training, whose travel could have been meaningful but less expensive, that they were cheated out of additional education and meaningful training by this waste.

I don't believe from the dais that any of us can determine whether \$50 million, or \$30 million, or \$90 million was the right amount to spend, but with the help of the Inspector General we know that much of it was misspent. And that means the American people didn't get a well-trained Federal workforce. It means that many Federal workers who will look at this hearing, aghast, and say, I don't get those perks, as a matter of fact, I would get fired if I took one of those perks, that the Federal workers around the country should be appalled that there were two standards: one for some and one for the rest. And as taxpayers, we should be appalled that

there were two standards: one for us and a different one for people that work for the IRS in some cases.

I think it's important that we understand that the reason we are holding this hearing, and thanks to the Inspector General's office, we have the facts just now on a study we have had for a long time, but it concerns a period of 2010 to 2012. And so it's not a new occurrence, and many of these things may not be happening today. Certainly, both the administration and Congress have acted to reduce the budgets for some of this kind of effort. But I think that's the most important reason to have a hearing. We want the culture to be, spend it, and spend it wisely. We want the culture to be, how can we get better training and a better trained workforce. And in many cases the best way is, bid for the lowest price for what you need, don't kick back perks. Those are not what the rank and file wants. They want an opportunity to be well trained.

I believe we are going to see a short video, or a couple of them today. These are, once again, for a reason. Training videos are important. Training material is important. And if you do training material, not only do you show it to your employees at conferences, but you put it on the Web. You make sure they know about it. You use it again and again. But if, in fact, what you have is entertainment, you know, if you will, training through art, it's not reusable. It doesn't have that staying power.

I want to make sure that the lavish behavior that you are going to hear today doesn't happen again, and I think every Federal worker wants to know that there is a single standard. They live up to it and they expect those who they don't know about to live up to it.

We often read that opening statement preamble about waste and about whistleblowers. I want to say today that one of the problems we have in government is there aren't enough whistleblowers. This hearing is about specifically spending at these conferences, and waste. But on everyone's mind is what the IRS did out of Cincinnati, and Washington, and Laguna, and Dallas offices to taxpayers and organizations that simply wanted to comply and made applications. Those people should have been better trained to be able to give answers quickly. There should have been the employees necessary for them not to wait 3 years.

So I think when we look at over \$3.2 million that was taken out of a fund to hire people, and instead was used for these lavish parties, it's pretty easy to see, don't talk about budget tightness until you tighten the budget where you can.

I think that there's no question you are going to see outrage on both sides of the aisle here today. This is outrage that needs to be tempered with the fact that on the second panel we'll have a new Acting Commissioner. This committee and other committees of Congress need to work with the new Commissioner so that he has the opportunity to straighten this organization out. Yesterday Mr. Werfel called me and we had a conversation, and I say, I don't normally share conversations, but the conversation was important because it was the kind of a first step that I think is about the transparency of, you tell us what you're doing, most of it will never be spoken, it doesn't need to be spoken public. Mr. Cummings, and myself, Mr. Camp, Mr. Levin need to know, and the various com-

mittees in the Senate also, that the work is going the right way; that a culture that had gone wrong has been changed. And a culture that would see organizations abused for years without a whistleblower coming forward, or that would see some of these conferences and not be as outraged as we were is a culture that needs to change.

And for those who were outraged, and those who are outraged today, I want everyone to understand, for the vast majority of Federal workers this is not the norm. And for the rest of the Federal workforce, if it's the norm, it's time to blow the whistle and get it changed. The American people deserve value for their hard-earned money.

I recognize the ranking member for his opening statement.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I am glad that we are holding this hearing this morning. It is a very important hearing. I think that we must pause for one moment and give credit where credit is due, to you Mr. Chairman and to this entire committee. To Mr. Mica. You know, I also serve on the Transportation Committee, and Mr. Mica was the chairman of that committee. He called hearings and you called hearings, and we all worked together because back when the GSA scandal came up we worked in a bipartisan manner. And along with our actions, along with those of the President, we have been able to, I think, straighten out GSA.

But we did more than that. I think we sent a powerful message throughout the Federal Government that you cannot take the money of American workers and waste it. And so I pause this morning to applaud what we have already done. But as I always say, we can do better. And we will.

Today we are going to hold this hearing to examine excessive spending by the IRS at a conference out in Anaheim, California, in 2010. I understand this conference occurred 3 years ago. I'm aware that many reforms were put in place, so something like this will not happen again. And I know many examples we will discuss today, like the ridiculous "Star Trek" video. And I swear to God, I have looked at that video over and over again, and I swear, I do not see the redeeming value. And I was up at 3 o'clock this morning watching it, because I was trying to get to the redeeming value. Couldn't get there. I worked hard at it now.

However, these facts do not lessen my frustration and anger at this utterly wasteful spending. Take the "Star Trek" video, for example. Again, there's no—absolutely no redeeming value that I can identify in the video, and perhaps you, Mr. Fink, can help us understand what it was. It is not only a parody of a television show, but a parody of what many people unfairly think about Federal workers.

And let me pause here and thank the chairman for what you said about our Federal workers. You know, I'm a big defender of Federal workers, because I think a lot of times they are criticized when they should not be, and they get a raw deal. Their wages get frozen, but yet and still the babysitter still costs \$1,200 a month. And so I want to make sure that they understand that we understand that this is not—and I was glad you said it, Mr. Chairman—

that this is not what we think of Federal workers, what's happened here.

And, you know, I go back, and I could not—every time I would watch these videos at 3:00 o'clock this morning, you know, I said to myself, you know, this is appalling. But you know what really got me? When I walked out the door to come to Washington, and to see my constituents who get the early bus, the ones that go down to the Sheraton Hotel in downtown Baltimore and clean the floors, them. And I thought about the man who came to me the other day because he had just gotten a letter from the IRS about an audit. And I believe deep in my heart, he didn't mind being audited, he was scared as all get out, but he wants to know that he has been treated fairly. And he wants to know—and these are the words that I'm going to concentrate on today. The other day I concentrated on truth and trust. Today, I'm going to add on to that, take and waste. Take and waste.

What happens here is that when we have episodes like this, it has an impact on the average person. I live in a block where most people don't even make \$50,000 a year. But yet, still we can produce a video that has no redeeming value, none, and spend taxpayers' hard-earned dollars for that. And then there was that line dance. Couldn't see any there either. And so I say we can do better.

But guess what? Mr. Fink, the money that was spent on that, that's my money. That's the lady who got the early bus this morning. That's her money, the one who makes \$35,000, her. The gentleman up the street from me that makes \$45,000 hauling trash. That's their money. And so it was wasted.

In my district I can tell you that \$50,000 is a huge amount for families who are struggling to get by. That's more than many households make in this country.

Unfortunately, this was only part of a broader problem, which was the growth of IRS conference spending over the last decade. The Inspector General's report finds that the IRS spent approximately \$48.6 million on conferences over the past 3 fiscal years, from 2010 to 2012. But the IRS spent far more than that in the 3 prior fiscal years, from 2007 to 2009, when the IRS spent an astonishing \$72 million on conferences. And I know, Mr. George, that the scope of your inquiry was limited.

But let me say this, Mr. Chairman. It would be—it would be legislative malpractice, legislative malpractice if we did not bring Mr. Shulman in here to ask him to explain to us why from 2007 to 2008, in 2007, the conference budget was \$13.395 million, and then it more than doubled when we are going into a recession, when President Bush is coming to us telling us that the sky is about the fall, that our economic situation is about to go over a cliff. We then double it. It would be legislative malpractice if we don't figure out what happened there, because if we are truly going to get to the cause of this, we have to understand what happened to cause something to double.

I'm almost finished.

Chairman ISSA. No problem.

Mr. CUMMINGS. According to the IRS spending data, the single largest increase in conference spending occurred between 2007 and 2008 when spending jumped by more than \$15 million in a single

year. This is simply unacceptable and absolutely unnecessary. It may be difficult to find any good news today, but at least there are some indications that things are beginning to change. In 2011, after news broke about another wasteful conference held by the General Services Administration in Las Vegas, the President issued an executive order that significantly reduced travel and other expenditures across all Federal agencies. And I go back, and I give you credit, Mr. Chairman. I give Mr. Mica credit. A lot of these things had to do with what we did in this committee.

In 2012, the Office of Management & Budget directed all agencies to reduce their travel expenditures by 30 percent below the 2010 levels. OMB also required conferences costing more than \$100,000 to be approved at the Deputy Secretary level, and it prohibited conferences over \$500,000 without a waiver personally signed by the agency head.

As a result, the Inspector General's report explains that the IRS has now cut spending on conferences by 87 percent since 2010. We did that. We did that. And we ought to take credit for it, Mr. Chairman. Conference spending dropped to \$6.2 million in 2011 and to less than \$5 million in 2012.

I'm also very encouraged by the actions of the new head of IRS, Mr. Werfel, who is here with us today. And, Mr. Chairman, I agree with you, he is a breath of fresh air. He, I know he called you right after he got appointed and called me literally within hours of after getting appointed. And he said one thing that I shall never forget. He said, I will, number one, figure out what is going on and meet with you, Mr. George. He said number two, I will hold those responsible, who are bad actors in the agency. And number three, which means something to that lady that I talked about in my block that got on the bus at 6 o'clock this morning, he said, I will restore trust in the IRS.

And so he has been in his position for only 2 weeks and he has already taken significant action to begin restoring the integrity of the IRS and holding people accountable. In fact, as news reports today highlight, he removed two IRS employees from their positions and placed them on administrative leave for their alleged actions at this 2010 conference.

Mr. Werfel has a critical job ahead of him. One of the most damaging aspects of incidents like the IRS conference in Anaheim, or the GSA conference in Las Vegas, is that they hurt the reputation of all government workers who commit their lives to public service.

And as I close, Mr. Chairman, I hope you will join me in offering our committee's support as he works in the weeks and months ahead—and I know you will, because you just said you would. And as I said at our last meeting with IRS, we must dedicate ourselves to two major goals, two goals: truth and trust. Both goals are key, and based on his actions today, Mr. Werfel is working to achieve them.

And with that, Mr. Chairman, I thank you for your indulgence, and I yield back.

Chairman ISSA. I thank you, Mr. Cummings.

Members will have 7 days to submit opening statements for the record.

We now welcome our first panel of witnesses. Returning, actually, two out of three returning guests, The Honorable J. Russell George, he is the Inspector General for Tax Administration; Mr. Gregory Kutz, who is Assistant Inspector General for Management Services and Exempt Organizations.

And welcome back. We know that you had a big part in this investigation.

We also welcome Mr. Faris Fink. He is Commissioner of the Small Business and Self-Employed Division at the Internal Revenue Service.

And pursuant to the rules of the committee, would all three witnesses please rise, raise your right hand to take the oath?

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Let the record—please be seated—let the record reflect that all witnesses answered in the affirmative.

Now, I understand, Mr. George, is there one opening statement between the two of you?

Mr. GEORGE. That is correct, Mr. Chairman.

Chairman ISSA. And thank you again, Mr. George, for being here. I know we are going to rely on you for a number of questions, but I believe Mr. Kutz is going to take the lead, and we appreciate that. I also appreciate the fact that you created a relationship with the Acting Commissioner that I believe is going to provide a great deal to the transparency, without redundancy by committees, and I think that's important, too. So what I'd like to do is, I guess, recognize—Mr. George, do you want to make any comment before we go to Mr. Kutz?

Mr. GEORGE. Yes.

Chairman ISSA. Please. The gentleman is recognized.

STATEMENT OF J. RUSSELL GEORGE

Mr. GEORGE. Chairman Issa, Ranking Member Cummings, and members of the committee, thank you for the opportunity to discuss IRS conference spending. Today's testimony highlights the results of our audit of IRS conference spending for fiscal years 2010 through 2012. My own testimony will focus primarily on a conference held in Anaheim, California, in 2010. This conference was selected for review because we have received a specific allegation of excessive spending.

Overall, we found that the IRS spent, as was pointed out, an estimated \$49 million for 225 conferences during the 3-year period of our review. The conference in California was held at the Marriott, Hilton, and Sheraton Hotels in Anaheim in August of 2010 at a reported cost of \$4.1 million. The Small Business/Self-Employed Division of the IRS conducted this conference for an estimated 2,600 executives and managers. As required at the time, the conference was approved by the two Deputy Commissioners of the IRS. We could not validate the accuracy of the \$4.1 million conference cost because the IRS did not have effective controls to track and report those costs; \$3.2 million dollars of the conference costs were paid from unused funding originally intended for hiring enforcement employees.

Instead of using the required IRS personnel whose job it is to search for the most cost-effective location for the conference, the IRS used two commercial planners to identify a site for the conference. These two planners were not under contract with the IRS, and thus had no incentive to negotiate a favorable room rate. They were paid an estimated total of \$133,000 in commissions based on the costs of the rooms paid by the IRS.

Rather than negotiate a lower room rate, the planners specifically requested 25 or more VIP suite upgrades with amenities from the hotel, along with a reception with complimentary drinks and deli breakfasts and other refreshments. The agreement with the hotels indicated that a total of 132 suite upgrades were provided each night by the three hotels. For example, the Commissioner and Deputy Commissioner for the Small Business Division stayed multiple nights in presidential suites at the hotels.

Other examples of questionable spending for the conference include planning trips costing \$35,000, two video productions which were shown at the conference. Local employees were authorized to stay at the hotel at an expense of \$30,000; \$44,000 in travel costs were incurred for employees to staff booths in an exhibition hall; gifts and trinkets were given to IRS employees costing \$64,000; and \$135,000 were expended for outside speakers, one of whom was paid \$17,000. This speaker created six paintings at two sessions. Two of the paintings were given away at the conference, three were auctioned off for charity, and one was reported by the IRS as lost.

In addition to this audit, TIGTA conducted other reviews of individuals related to the conference which focused on potential misconduct. Although the details of our actions are confidential pursuant to Title 26, Section 6103, Subsection (b)(2)(A) and (f) of the Internal Revenue Code, we did refer an issue to the Internal Revenue Service for consideration of administrative action. Overall, our review of this conference did not uncover any criminal violations.

In conclusion, it is worth noting that the IRS conference spending, as was pointed out, dropped over the 3-year period from a total of \$38 million in 2010 to \$5 million in 2012. This was due in large part to increased oversight and controls instituted at the IRS. We did make further recommendations to tighten controls and the IRS has agreed to all of our recommendations.

Chairman Issa, Ranking Member Cummings, members of the committee, thank you for the invitation to appear.

Chairman ISSA. Thank you.

[Prepared statement of Mr. George follows:]

TESTIMONY
OF
THE HONORABLE J. RUSSELL
GEORGE
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION
before
the
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

"AUDIT REPORT: REVIEW OF THE AUGUST 2010
SMALL BUSINESS/SELF-EMPLOYED DIVISION'S CONFERENCE IN ANAHEIM,
CALIFORNIA"

June 6, 2013

Chairman Issa, Ranking Member Cummings, and Members of the Committee, thank you for the invitation to provide testimony on the subject of the Internal Revenue Service's (IRS) conference spending for Fiscal Years (FY) 2010 through 2012.¹ The Treasury Inspector General for Tax Administration, also known as TIGTA, plays a critical role in ensuring that the approximately 99,300² IRS employees who collect over \$2.1 trillion in tax revenue each year, process over 147 million individual tax returns, and issue approximately \$333 billion in tax refunds, do so in an effective and efficient manner while minimizing the risks of waste, fraud, and abuse.

According to the IRS, it held 225 conferences during FYs 2010 through 2012 for a total estimated cost of approximately \$49 million. My testimony today summarizes a report³ recently issued by my office that focuses on the August 2010 IRS Small Business/Self-Employed (SB/SE) Division conference held in Anaheim, California (hereinafter referred to as the Anaheim conference or the conference). According to information obtained from the IRS, the conference was provided to 2,609 employees at an estimated cost of approximately \$4.1 million. We focused audit work on this conference specifically because of an allegation that TIGTA received about excessive

¹ For this audit, we defined conferences as an IRS-sponsored meeting, retreat, seminar, symposium, training, or other event that involved travel for 50 or more attendees. In addition, a conference is defined in the Federal Travel Regulations as, "[a] meeting, retreat, seminar, symposium or event that involves attendee travel. The term 'conference' also applies to training activities that are considered to be conferences under 5 CFR 410.404." See 41 CFR 300-3.1.

² Total IRS staffing as of March 23, 2013.

³ TIGTA, Ref. No. 2013-10-037, *Review of the August 2010 Small Business/Self-Employed Division's Conference in Anaheim, California* (May 2013).

spending at the conference and because it was the most expensive conference held by the IRS during FYs 2010 through 2012.

RESULTS OF REVIEW

TIGTA identified several areas of concern associated with the August 2010 SB/SE Anaheim conference and made recommendations to ensure taxpayer funds are expended more efficiently in the future. First, procedures at the time of the conference did not require IRS management to track and report actual conference costs. As a result, TIGTA could not validate the conference cost reported by the IRS. TIGTA also determined that the IRS did not use available internal personnel to assist in searching for the most cost-effective location as required. Instead, IRS management approached two non-governmental event planners to identify a suitable off-site location for the conference. These two planners were not under contract with the IRS; hence they had no incentive to negotiate a favorable room rate for the IRS. In addition, TIGTA identified concessions provided by the hotels and questionable expenses paid by the IRS. Concessions included daily continental breakfast, a welcome reception with two drink coupons for all attendees, and a substantial number of suite upgrades. TIGTA also identified that several planning trips were conducted before the conference, as well as expenditures related to 15 outside speakers and videos shown at the conference. Further, TIGTA identified other questionable expenses related to the conference including an information corridor, costing approximately \$44,000 in travel costs for IRS employees who staffed the information booths, and approximately \$64,000 in promotional items and gifts for IRS employees.

In total, TIGTA made nine recommendations to the IRS on improvements that will strengthen controls over conference expenditures. In their response to our report, IRS management agreed with all of TIGTA's recommendations. The IRS agreed to issue additional guidance related to conference spending and attendance, tracking continuing professional education (CPE) credits, the use of event planners, soliciting room upgrades, video productions, planning trips, and the conference approval process.

APPROVAL, FUNDING, AND ACCOUNTING FOR ANAHEIM CONFERENCE EXPENSES

According to IRS management, this conference provided a unique opportunity for leadership development, skills sharing and collaboration on key issues. While the IRS was planning the conference in 2010, the IRS's procedures required that any conference that was expected to cost more than \$100,000 be pre-approved by the Deputy Commissioner for Operations Support. The Anaheim conference was

approved, as required, by the Deputy Commissioner for Operations Support as well as the Deputy Commissioner for Services and Enforcement. The request approved by the Deputy Commissioners was for a Small Business/Self-Employed All Managers CPE.

The IRS paid for the conference primarily through unused funding originally intended to hire enforcement employees such as revenue officers, revenue agents, and tax compliance officers. According to IRS management, the SB/SE Division was allocated \$132.7 million to hire 1,315 full-time employees in the IRS's FY 2010 budget. The IRS indicated that although 1,516 hires were made during FY 2010, there were unused funds from the hiring initiative that would have lapsed at the end of FY 2010 because the new hires were not on board for the full year. IRS management transferred \$3.2 million from the hiring initiative to help fund the conference. IRS management also indicated training funds were used to cover the additional conference expenses. Use of these funds for training purposes did not violate appropriations law.

We determined that the IRS did not adequately track and monitor the costs for the Anaheim conference. While IRS management provided documentation showing the total final costs at \$4.1 million, we could not obtain reasonable assurance that this amount represented a full and accurate accounting of the conference costs. For example, by reviewing travel voucher documentation, we determined that IRS management understated the cost for all employees' travel by approximately \$93,000. The lack of adequate tracking of costs may be due to the lack of a requirement that IRS management track and report actual conference costs.

ANAHEIM CONFERENCE PLANNING

The IRS did not follow established guidelines when selecting Anaheim, California for the conference location because it did not use available internal personnel to identify the most cost-effective location. Instead, IRS management approached two non-governmental event planners to identify an off-site location for the conference. These event planners were not under contract with the IRS but were instead each paid a five percent commission directly by the hotels based on the cost of rooms paid for by the IRS for the conference. Since the event planners were directly compensated based on the room rate, there was no incentive to negotiate for a lower room rate and thus save the IRS money. We estimate the event planners were paid approximately \$133,000 by the hotels (or approximately \$66,500 each). In addition, several IRS employees made three planning trips in advance of the conference that cost the government over \$35,000. IRS management did not consider the third trip to be a "planning" trip and stated that support personnel traveled to Anaheim the week prior to the conference to handle all setup work.

CONFERENCE EXPENSES AND ITEMS GIVEN TO ATTENDEES

The Anaheim Conference included numerous expenses beyond basic travel costs including the costs of videos produced for the event and outside speaker costs of more than \$135,000. In addition, concessions provided by the hotels included room upgrades, cocktails, and daily continental breakfasts.

Conference Expenses

We identified several questionable expenses related to the conference. For example, the IRS produced a "Star Trek" parody video at its television studio in New Carrollton, Maryland. The IRS stated the purpose of the "Star Trek" video was to set the stage for the many topics being covered at the conference and featured IRS executives portraying characters from the "Star Trek" television show. They also produced a second video featuring 15 IRS executives and managers dancing on a stage. IRS management advised us that they spent \$50,187 for video costs at the conference; however, they did not provide any details on the estimated cost or provide any supporting documentation describing how this money was spent.

The IRS also paid \$135,350 for 15 outside speakers including two keynote speakers. One keynote speaker was paid \$17,000 to create six paintings to reinforce the message of his presentation. Two paintings were given to conference attendees, three were given to charities, and one painting was lost according to IRS management. Another speaker was paid \$27,500 which included a travel fee of \$2,500 to fly to the conference via first-class travel. Additional conference expenses included the following:

- \$29,364 in per diem⁴ expenses authorized by the Commissioner, SB/SE Division for employees who worked in the Anaheim area. The IRS advised us that a total of 38 local IRS employees stayed at the hotels and incurred per diem expenses. We identified seven additional local area employees that claimed per diem expenses. IRS travel guidelines allow employees on official travel more than 40 miles from both their official duty station and residence to claim per diem expenses. These guidelines outline several circumstances that may justify an exception, such as when an employee is attending training or a conference and the location is at least 30 miles from both their official duty station and residence. Our research indicated that the posts of duty for some of the employees were within 30 miles of the conference location. In its management response, the IRS

⁴ The per diem allowance (also referred to as subsistence allowance) is a daily payment instead of reimbursement for actual expenses for lodging, meals, and related incidental expenses.

agreed to identify local employees who did not receive a Form W-2 for taxable travel and issue them as appropriate.

- More than \$44,000 in travel costs for IRS employees who staffed booths in an "information corridor," *i.e.*, exhibitor hall that was staffed by representatives from various offices within the IRS to share information on their services and share hands-on demos with meeting participants. Forty-two IRS employees traveled for this purpose.
- More than \$64,000 in gifts and promotional items provided to attendees. This includes approximately \$27,000 in promotional items provided at the information corridor booths. Items given away at the conference included travel mugs, pens, clocks, and brief bags with the logo "Leading into the Future."

Hotel Concessions

As part of its agreement with the Anaheim hotels, the IRS received certain concessions including several food and beverage requests. This included a welcome reception with food and cocktails, daily continental breakfast, as well as beverages and snacks during morning and afternoon breaks. We believe the IRS may have been able to negotiate with the hotels to get a reduced room rate if some of these services were not included and event planners were not used. Additionally, a substantial number of IRS employees received hotel room upgrades. As part of the agreement signed with the hotels, the IRS received up to 132 upgraded rooms each night, as well as 10 free rooms.⁵ As part of the agreement, the hotels charged the IRS the Federal Government rate of \$135 per night for paid rooms including suites. Room upgrades included:

- Presidential Suite at the Marriott - the Commissioner, SB/SE Division stayed 5 nights in a presidential suite at a cost of \$135 per night. The room normally retails for \$3,500 per night according to a Marriott representative.
- Presidential Suite at the Hilton - the Deputy Commissioner, SB/SE Division stayed five nights in a presidential suite at a cost of \$135 per night. However, the room retailed for \$1,499 per night.

Because these free rooms and upgrades were part of the Letters of Intent with the hotels, they are not gifts to employees.⁶ However, the solicitation and use of hotel

⁵ Upgraded rooms included a variety of rooms such as studio suites, two bedroom suites, and presidential suites.

⁶ The letters of intent were agreements signed between the IRS and the hotels documenting services provided by the hotels.

room upgrades increases the perception of wasteful spending and should be carefully considered in the future.

Actions Taken Since the 2010 Conference

In the last three fiscal years, the IRS has spent approximately \$49 million on at least 225 conferences. However the trend of spending has gone from approximately \$38 million in FY 2010, to approximately \$6 million in FY 2011 and \$5 million in FY 2012. The IRS attributes this reduction in spending in part to enhanced controls over conference spending. Beginning in February 2011, the IRS issued a number of policy and guidance documents to minimize spending on travel and conferences. This guidance related to eliminating all face-to-face managers' meetings unless approved by the Deputy Commissioners, as well as limiting training to only mission-critical technical training delivered remotely whenever possible. In August 2011, the IRS issued guidance to discontinue the purchase of promotional items unless approved by the Deputy Commissioners. In November 2011, the IRS issued guidance to further reduce all travel and training by 10 percent; and in December 2011, the IRS established new procedures requiring Deputy Commissioner approval of conference-related activities.

Additionally, on March 2, 2012, the IRS Chief Financial Officer issued consolidated guidance for events hosted by the IRS including, but not limited to, conferences, training, and meetings. The guidance includes pertinent information on approvals, event planning, refreshments, site selection, procurement, promotional items, and recordkeeping requirements.

In May 2012, the Office of Management and Budget issued guidelines⁷ stipulating that agencies may not incur net expenses greater than \$500,000 for a single conference, and agencies must publicly report (on their official website) all conference expenses in excess of \$100,000. Lastly, Department of the Treasury guidance implemented in November 2012 further requires that any conference hosted or sponsored by Department of the Treasury bureaus costing \$250,000 or more must be approved by the Secretary of the Treasury. In addition, the use of event planners (used for assistance in site selection) must now be approved in advance by the Department of the Treasury's Office of the Assistant Secretary for Management and Chief Financial Officer.

⁷ Office of Management and Budget, Memorandum M12-12, Promoting Efficient Spending to Support Agency Operations (May 2012). An agency head may provide a waiver from this policy if it is determined that exceptional circumstances exist whereby spending in excess of \$500,000 on a single conference is the most cost-effective option to achieve a compelling purpose.

I believe the procedures issued since the Anaheim conference occurred will help to ensure that some of the questionable expenses we identified do not happen again. For example, IRS guidance now prohibits an office from purchasing any promotional items that include logos or customized slogans in support of IRS training activities, meetings, or conferences. IRS management is also now required to establish a methodology to identify, track, and review various conference costs.

However, notwithstanding these recent actions, we identified additional improvements needed and made nine recommendations to enhance controls. We believe the recommendations outlined in our report will strengthen controls over conference spending and ensure that taxpayer funds are expended more efficiently in the future. The IRS agreed with our recommendations and stated it plans to issue additional guidance related to conference spending and attendance, tracking CPE credits, the use of event planners, soliciting upgrades, video productions, planning trips and the conference approval process. In the IRS's response to our report, it did state that the use of event planners, the receipt of room upgrades, the welcome reception and breakfast provided by the hotels did not entail the use of any additional Government resources. However, we believe the costs for the conference could have been reduced if the IRS had used internal personnel as required and negotiated for a lower room rate rather than using outside event planners that negotiated for numerous concessions.

We at TIGTA are committed to delivering our mission of ensuring an effective and efficient tax administration system and preventing, detecting, and deterring waste, fraud, and abuse. As such, we plan to provide continuing audit coverage of the IRS's efforts to operate efficiently and effectively.

Chairman Issa, Ranking Member Cummings, and Members of the Committee, thank you for the opportunity to update you on our work on this tax administration issue.

Chairman ISSA. Mr. Kutz.
 Mr. KUTZ. I have nothing. I look forward to your questions, Mr. Chairman.
 Chairman ISSA. Thank you.
 Mr. Fink.

STATEMENT OF FARIS FINK

Mr. FINK. Chairman Issa, Ranking Member Cummings, members of the committee, my name is Faris Fink. I am the Commissioner with the Small Business/Self-Employed Division of the Internal Revenue Service. I appreciate the opportunity to appear here today.

I have worked for the Internal Revenue Service for 32 years, starting as a grade 7 revenue officer in Ohio. I became the Commissioner of the Small Business/Self-Employed Operating Division in May of 2011. I am proud to be an IRS employee and serve alongside thousands of dedicated public servants who administer our tax laws. My division has 24,000 employees, and it accounts for the majority of the \$50 billion that the IRS collects in enforcement revenue each year.

The meeting we held in 2010 was to train 2,600 managers from 350 offices across the country. We needed to ensure that they had the tools to lead their employees and adapt to major changes that were occurring. At the time of this meeting, almost 30 percent of our managers were new or had only been managers within a 2-year period. Another focus of the meeting was employee safety. There had been a substantial increase in the number of security threats against employees of the Internal Revenue Service.

I think it is important to point out that in carrying out this 2010 meeting we followed IRS and government procedures that were in place at the time. The Treasury Inspector General's office review found no instances of fraud. But we are now in a very different environment, and there are many new procedures in place at the IRS governing training and travel. In hindsight, many of the expenses that were incurred in this 2010 conference should have been more closely scrutinized or not incurred at all, and were not the best use of taxpayer dollars. Given the new procedures and restrictions in spending—on spending—we would not hold this same type of meeting today.

Mr. Chairman, that ends my statement, and I would be happy to answer any questions.

Chairman ISSA. Thank you, Mr. Fink.

I need to announce for both the witnesses and the folks on the dais that we expect votes momentarily. It will be a long series of votes. We could be gone for up to an hour. So I would ask the witnesses, we will make room available back there for you. We will come back immediately, and I mean fast as a bunny, after the last vote. So as soon as myself, or actually anyone gets to the chair, we will recommence so that we can get the day underway. I have been advised these may be the only votes of the day. I would also advise that you please return if at all possible if you don't have travel plans.

With that, I will recognize myself for a first round. Could we have the—the those will be last votes of the day, yes. Could we have the suites, please?

Now, as I show those, I want everyone to understand that these are suites that were upgrades. I think even Mr. Fink may have enjoyed one similar to this. There's—these are not uncommon for large conventions. What we want to make clear is the allocation and how we paid for them is, I think, a big part of what the IG is aware of. Is there another picture or is that the only one?

Okay, well, let's just say that I have been honored when I was chairman of an association to stay in one of those. It was comped by the hotel after a large bidding on taking virtually every room in the hotel. And I assure you, the room rates for our guests were below what the IRS paid in that hotel.

Having said that, could we go to the video? And then we will begin with the questioning. I think Mr. Cummings and I both have seen it enough, but for some who have not seen it, I want to get it into the record. And this is a short clip. It won't be the whole thing. But it sets a tone.

Lacy, I know you haven't seen this.

[video shown.]

Chairman ISSA. I'm sure many more will watch that and some will laugh. My questions are, you know, what a surprise, and I will start with Mr. Fink. What were you thinking? Were you thinking this will never be seen, or were you thinking, how will this look when it is seen?

Mr. FINK. Mr. Chairman—

Chairman ISSA. Please speak close to the mic. We couldn't hear. You are not on.

Mr. FINK. Mr. Chairman, those videos were, at the time they were made, were an attempt to, in a well-intentioned way, use humor, the "Star Trek" video to open the conference. The dance video was used to close the conference. They would not occur today based upon all of the guidelines that exist, and frankly, they were not appropriate at that time either, Mr. Chairman. And the fact of the matter is, is it's embarrassing, and I apologize. Those videos, I notice in the Inspector General's report there is not a clear delineation of the cost of both the videos, but they are embarrassing, and I regret the fact that they were made.

Chairman ISSA. Let me do a follow-up question, because one of the most concerning part of the IG's report is it appears as though at the IRS, both in this and other cases, we can't count on proper accounting of what money is spent on what. There were at least many cases in which people traveled for conferences during this entire period, and as far as I know, today, in which if they simply bill it as travel and not as conference travel, then it won't be seen as conference travel.

How are we to know—and, obviously, without receipts and even a missing painting—how are we to know that these kinds of changes have occurred to where there is an auditable train of where money was spent?

Mr. FINK. Mr. Chairman, to respond to that question, of course, it has already been spoken that there has been many changes at the IRS. One of the changes at the Internal Revenue Service is around the tracking of expenses around conferences, meetings, and training. For the particular conference in Anaheim, we were only able to track 90 percent of the cost. There's a variety of reasons

that the other 10 percent were not accurately tracked. It's because people did not use the tracking code that was in place. It's also that folks were on other travel, visiting offices, doing things of that nature, did not use the conference tracking code, and may have charged their expenses to another code for another business purpose.

Chairman ISSA. Well, you know, the reason I ask that is twofold. First of all, if I did it as a business, and thus couldn't account for receipts, wouldn't your inspectors say disallowed?

Mr. FINK. Mr. Chairman, yes. Our auditors would look at records. They do have some discretion, as far as the reasonableness of the records that are submitted. But we take very seriously the role that we occupy in ensuring that people have the appropriate business records. This year, an example that you have provided, we only did have 90 percent of the information as far as the expenditures.

Chairman ISSA. Now, if I were to have local folks get hotel rooms and meals and so on and not issue a W-2, I made a fairly serious allegation as a layman, I'm not saying that it's the law, exactly, but I could characterize it as tax evasion. If a company didn't do it and the employees, particularly let's just say that they are accountants and very knowledgeable of the law, didn't do it, there were no W-2s, no 1099s, essentially no accountability for this revenue that is supposed to be taxed, what would you do in that case?

Mr. FINK. In that case, Mr. Chairman, as pointed out in the Inspector General's report, you have to look at each situation case-by-case. And in that particular situation, you would look at the individual facts that existed in that situation. In the matter that you are referring to here is we now have issued W-2s to all of what we characterize as being local travellers after it was brought to our attention by the Inspector General and in their report that we had not appropriately accounted for all of the local travellers, sir.

Chairman ISSA. I appreciate that.

Mr. Kutz, I guess I'll characterize it to you. It was not in the tax year in which it was earned, so the employees did not voluntarily file, as far as we know. I know that's not available to the public, but the employees didn't take it on themselves, knowledgeable people about taxes, to say, oh, I've got to pay taxes on this. The employer did not issue the required tax statement to itself, if you will. I characterized it as tax evasion because it can't just be swept under the rug. These were knowledgeable parties on both sides, weren't they?

Mr. KUTZ. Yes, the IRS did not issue W-2s. And in fact, we found seven people that they didn't identify that were local that actually traveled. So those would have been some of the ones that didn't get W-2s.

Chairman ISSA. Now, I'm going to just close with one quick question, because not only do we have votes, but I want to be sensitive to time. I've worked event planners, and whether it was an event planner inside the IRS, which it should have been, or the ones that were hired, there does seem to be a little sleight of hand. They received a commission based on the more that was spent, the more they received. And apparently, they, as I understand from your report, they got free rooms for FAM trips, for familiarization trips,

while IRS employees paid for the rooms. Again, as far as I can tell, that increased their commissions while lowering their unreimbursable cost. Is that roughly right?

Mr. KUTZ. That would be right. The IRS also received, I think, 10 comp rooms per night, but most of the upgrade rooms IRS had they paid the \$135 per diem rate for.

Chairman ISSA. And have you done any work to look at comparables from other associations? I headed the Consumer Electronics Association, puts on the CES, but I also was on smaller associations. Have you done any work to figure out what the comp would be? I couldn't find that there. And I want to not cast any blame on the various hotels, because if somebody comes and says, this is what I want, it's not your job to make the dumb smart if you're on the selling side.

Mr. KUTZ. No, what we looked at is that they could have actually potentially negotiated the room rate down from \$135, as you mentioned, rather than solicit the 25-plus VIP suite upgrades per hotel. So they actually went out and said, we'll pay you full per diem, which is the most they could pay, and then they said we wanted to have various amenities, including the suite upgrades.

Chairman ISSA. And with the ranking member's indulgence, there was a mention of rooms, various rooms that—various food that was provided. IRS employees received full per diem, of course. Did you have a substantial amount of per diem returned as a result of their getting meals, which would be the law? In other words, you're not entitled to keep the per diem if you didn't have to use it because others provided you meals.

Mr. KUTZ. Actually, Federal Travel Regulations do not require employees to deduct that from their per diem, but we did do a statistical sample, and all the employees in our sample got full per diem of \$71 per day, even though they received a continental breakfast. But there was nothing wrong with that according to Federal Travel Regulations.

Chairman ISSA. It just smells real bad.

Mr. KUTZ. Well, we essentially paid for breakfast twice probably, Mr. Chairman.

Chairman ISSA. But negotiating paying for breakfast and then paying full per diem created a situation in which they got overpaid, basically.

Mr. KUTZ. Not technically, according to Federal Travel Regulations. But again, from a taxpayer perspective, they got breakfast and the government paid them for breakfast at the same time.

Chairman ISSA. Thank you.

Mr. Cummings.

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

Mr. George, according to your report, the IRS conference in Anaheim in 2010 cost more than \$4 million. Is that correct?

Mr. GEORGE. Yes, it is sir.

Mr. CUMMINGS. Although your report does not identify any legal violations, it raises concerns with the way taxpayer money was spent. For example, your report raises concerns with how the IRS chose Anaheim as the location for this conference. And it questions the use of nongovernment event planners to identify this location.

Picking up where the chairman left off, specifically your report states, "The use of the planners in this process increased the possibility that the site selection did not result in the lowest cost to the government." Is that right?

Mr. GEORGE. That is correct, sir.

Mr. CUMMINGS. Now, let me go to you, Mr. Fink. I am—I must tell you that I'm pleased that you apologized. That's a major step, because I think it's important that the American people know that, that somebody feels bad about this, and remorseful. But Mr. Fink, let me turn to this. The committee obtained documents from the hotels that hosted the conference in Anaheim, and in one of those documents is an email between two Marriott hotel employees. I want to read it to you and get your response. Now, I want you to listen to this.

It says, "Orlando and Las Vegas are out!" Exclamation marks. "This is fantastic news as Orlando was \$1 million less—less in travel spend. The funding is there, and they have been instructed to move forward."

Mr. Fink, this email sounds like the hotel employees were mocking you and maybe even making—taking advantage of the IRS. It says you could have saved a million dollars by holding this conference in Orlando.

I have no idea if these hotel employees knew what they were talking about or just theorizing. So let me ask you, since you were the man in charge. How did you choose Anaheim for this conference? Did you look at other locations, like Orlando? And were any of those other locations less expensive?

Mr. FINK. Representative Cummings, first off, I'm not familiar with the email, but I will tell you what I have been told was done at that time, was that we used a travel estimator. There is a travel estimator that is used by the Internal Revenue Service when planning training meetings. That travel estimator we looked at over 20 different locations. And in using the travel estimator, we came up with three locations that could handle this size of conference, that would be able to be logistically not incurring additional costs as far as traveling people long distances when they arrived.

So we looked at those types of things that were—in addition to using the travel estimator to look at, I believe it was over 20 different locations. So that we had to incur—we had to look at and make sure that we were not going to incur additional local expenses, but along with that, it was just a matter of logistics when which came up with the final three cities, sir.

Mr. CUMMINGS. And so you've said several times during this hearing that if this were to take place today, it would be different. How would it be different?

Mr. FINK. It would be different today because, Representative Cummings, the conference would not occur. Under the guidelines and the restrictions that exist today, a conference of this nature would not occur.

Mr. CUMMINGS. I note that back in 2010 there were 152 conferences, and then in 2012, I think there was like 24, and an 87 percent decrease, and thanks to this committee, and Transportation of course, and President Obama. Do you think that was a good thing?

Mr. FINK. Absolutely.

Mr. CUMMINGS. And why do you say that?

Mr. FINK. The reason that I feel it was a good thing to see the decrease, it showed that we had increased our scrutiny, that we were paying more attention to how we are using the taxpayers' money, and that we were taking a harder look as to what was the necessary training that individuals were receiving.

Mr. CUMMINGS. Now, let me ask you this: Did the event planner give you a cost-benefit comparison of the various locations before the IRS chose which to use?

Mr. FINK. Representative Cummings, I had no interaction with the event planners. I do not know if they gave us a cost estimate. I know that we chose the cities as far as looking at which cities would be appropriate, and we also made the final decision around where to hold the conference.

Mr. CUMMINGS. Mr. George, I'd like to ask you about the room upgrades. As I understand your report, 132 hotel rooms were upgraded to suites, but the government still paid its normal per diem rate of \$135 for these rooms. That's right? I think you testified to that earlier. So your report is not saying that the IRS paid \$1,500 a night for these rooms, which I guess they might normally go for, Mr. Kutz?

Mr. KUTZ. That's right.

Mr. CUMMINGS. Your report is saying, if I understand it correctly, that instead of accepting these room upgrades, the IRS should have negotiated lower prices for all the rooms or for the whole conference, is that right?

Mr. GEORGE. That is correct, sir.

Mr. CUMMINGS. And, Mr. Fink, my final question, why didn't you do that?

Mr. FINK. First off, I was not aware that we had the ability to do that. And as of today, I'm not sure that we could have done that, Representative Cummings. I do believe, though, that we did pay the \$135 per diem rate, and in paying that \$135 per diem rate there were additional items that were included by the hotels to use during the conference.

Mr. CUMMINGS. Thank you, Mr. Chairman.

Mr. MICA. [Presiding.] Thank the gentleman. And I'll yield to myself for questions. And we do have the vote going on, folks, so we probably have about 4 or 5 minutes left here, less than that.

But let me start out with Mr. George. Your report indicated \$135,000 was spent just on speakers for this event. Is there any similar experience in spending that amount of money for a conference that you're aware of?

Mr. GEORGE. In the course of conducting this audit we did not compare previous conferences to this one in terms of that expense.

Mr. MICA. Well, Mr. Cummings talked a little bit about our efforts to rein in GSA, and we conducted some reviews of GSA's operations and found out that they spent—it wasn't even a million dollars on a conference, but outrageous spending was determined. We couldn't get much attention on that.

Mr. Fink, are you familiar with this guy? This is the GSA official in the hot tub. Have you ever seen that picture?

Mr. FINK. I have seen that picture, yes, sir.

Mr. MICA. Well, I just wondered if that was any motivation for the dramatic change in your spending. Spent \$37 million in that year, and then Congress held these hearings, which we participated in, and the famous guy in the hot tub probably did more to bring egregious spending under control. Did this affect you at all?

Mr. FINK. The new guidelines were put into place, Congressman, the new restrictions on travel and on spending funds for training and things of that nature. That was handled primarily by the—what would be the operations support side.

Mr. MICA. Well, did you approve expenditures for the—or involved in the planning of the \$4 million conference in Anaheim?

Mr. FINK. No, sir, I did not.

Mr. MICA. You attended?

Mr. FINK. Yes, sir.

Mr. MICA. And you did participate in the conference?

Mr. FINK. Yes, sir.

Mr. MICA. And then afterwards, I understand you were promoted. Is that correct?

Mr. FINK. I became the Commissioner after the conference, yes, sir.

Mr. MICA. I understand the planners and some of the others got bonuses. Is that correct?

Mr. FINK. There were six bonuses that were paid, yes, sir, to individuals who—

Mr. MICA. Did you get a bonus that year, 2010, 2011?

Mr. FINK. For performance, yes, sir.

Mr. MICA. Did you—are you aware of the money that they spent, of course on this particular enterprise, that paid \$17,000, where this individual, who is I guess some sort of art expert, and produced six drawings, paintings?

Mr. FINK. Yes, sir, I saw that in the Inspector General's report, and also I attended that session.

Mr. MICA. You did. You did. And do you think that that was a proper expenditure of taxpayer dollars?

Mr. FINK. For what we were trying to convey at that time, and based upon his expertise, the way he communicates and the message that he delivers through his presentation—

Mr. MICA. I was surprised to hear you said that one of the paintings is—a couple were auctioned, I guess, and they got less than \$500 for charity, but one is missing. Maybe we should offer a reward for the missing. You don't know where the missing painting is, do you, Mr. Fink?

Mr. FINK. Absolutely not, sir.

Mr. MICA. Okay. And then I understand, you know, we had these—these are the famous—these turned over to me by some whistleblowers—these are the famous \$20,000 drumsticks that were used in the Las Vegas GSA conference. And I thought that wasteful spending had been taken to a new level.

Now I see, Mr. George, in your report, you have squirting fish as part of \$64,000. Has anyone—did you see—anyone seen a squirting fish? Did you see one at the conference?

Mr. FINK. No, sir, I did not.

Mr. MICA. Maybe I could offer a reward. I'd love to see one of the squirting fish. I'm sure that some of the taxpayers, the people

that went to work on that early bus this morning out of Baltimore, or my district in central Florida, love to know that the Federal Government spent \$64,000 on squirting fish for Federal employees at a conference. Is that an appropriate expenditure of funds, Mr. Fink?

Mr. FINK. And I would answer, Congressman, that there were expenses that were incurred at that conference, for that conference, that were absolutely inappropriate. And that would be one of those expenditures.

Mr. MICA. Well, I would say that IRS has taken government arrogance and wasteful spending to an absolutely incredible level. And it has to be dismaying to people who are sending their hard-earned dollars to IRS every week in their paycheck, every month, quarterly, or April 15th, to find out their money has been spent—some of these expenditures were no bid, too, sole source. I think all of the \$135,000 on the conference speakers.

Is that correct, Mr. George?

Mr. GEORGE. That is my understanding sir, yes.

Mr. MICA. Well, we're going to hear from Mr. Werfel in a short while. Our goal is to, one, hold people accountable, and I understand some people have been suspended. We understand some people have gotten bonuses like yourself, Mr. Fink, who were involved or there. And we understand that, again, that the system has been corrected to a degree, partly because of Congress bringing these items to the attention of the Congress and the American people.

With that, we will have to recess, and we will return within 10 minutes of the last vote, so stay posted. The committee is in recess. Thank you.

[Recess.]

Mr. CHAFFETZ. [Presiding.] Committee will come to order. We will now recognize the gentleman from Ohio, Mr. Turner, for 5 minutes.

Mr. TURNER. Mr. George, I've thanked you before for your tenacity in making certain that we have the information to be able to do the oversight. One thing that struck me in looking at this review of this conference is what I call a budgetary slush fund trick.

When I served as mayor for the city of Dayton, I inherited a city that had not balanced its budget in 5 years and we had to immediately balance it. And one way that we did so was by finding those slush fund budgeting tricks. And this trick was actually something that we saw in the city. And that is that people were taking vacant positions and they were cannibalizing the money, and using it for items that did not have the same level of scrutiny. The money would not be—if they came forward sort of with a budget proposal that had what they were actually going to spend the money on, it would never pass the test of scrutiny but by keeping vacant positions open, they could cannibalize the money and use it for purposes that had a lower level of scrutiny and accomplish things like this outrageous conference.

Could you speak to that for a moment? Because in the city, we prohibited this practice. What we did is we said if you have an open position that fund, those funds could only be used for personnel, and if they're not used for personnel, that they are recaptured and have to go back into essentially for us the Treasury on

the Federal side. I'm concerned in seeing this that this must happen across the board in the Federal level, and there's probably hundreds of millions of dollars that could be recaptured if we recaptured vacant position funding.

Can you speak to that, Mr. Gorge?

Mr. GEORGE. Yes, Mr. Turner. And then I may defer to my colleague, Mr. Kutz, to elaborate.

We did look at this issue. The money that was expended by the IRS in terms of the unused money that was otherwise provided for hiring of enforcement officials, it was going to lapse. If the IRS had not completed the hiring process by the end of the fiscal year, that money would have been returned to the general Treasury. And so they did have an incentive, and in some ways, some people consider it a perverse incentive, to spend money before it goes back to the Treasury.

Mr. TURNER. See, what we did in the city is we said you don't have that option. If you have not hired people, if these monies are not being used for personnel, the money goes back, period, so you don't get this slush fund that they used to do this conference.

Mr. GEORGE. There are instances when money is limited to the sole purpose for which it was first appropriated. So, but in this instance that was not the case. And I think I'm going to now request that my colleague—

Mr. KUTZ. Real briefly this is part of the small business output; they're part of the enforcement appropriations account within the IRS. This money was essentially transferred within that appropriation which we've determined was not a violation of appropriations law.

Mr. TURNER. Well, I want to take this issue up because certainly, I've seen on the local level how it makes a difference, and we certainly need to do it on the Federal level because I'm certain across all Federal agencies there have to be these slush fund pots that don't meet the scrutiny level that if the funds had been requested for the purpose that it ultimately was spent would have been denied.

Mr. FINK, we have what we understand is the swag bag from the event. This says leading into the future, and then we have a portfolio that says "teamwork in action." These items like 3,000 of them were given to all the participants over \$60,000 of these types of trinkets. And listening to the ranking member who was so eloquent about the issue of how these are taxpayer dollars that are taken out of the pockets of people who work very hard for their money. We note in the footnotes of what was in these swag bags is that it also included, I'm kind of confused by saying this, a plastic squirting fish. And I've been asked several times by the media who have taken a look at this, what purpose could the IRS have in giving the participants a plastic squirting fish?

I think it goes to what the ranking member was saying part of the party atmosphere that this clearly was not for business and government purposes, that it was a party.

Could you please tell me what were these items for? And why would people get a plastic squirting fish?

Mr. FINK. Congressman, as I mentioned, I honestly have no idea what the plastic squirting fish was. That's just being honest about

it. The items that you refer to, there in the bag, as I mentioned earlier, and in the Inspector General's report also, when you look at the expenditures that were done for these items, we certainly, as an organization, should not have spent those funds.

Mr. TURNER. Thank you. Mr. Fink, I hope you understand the irony of taxpayers who hear you saying that you can only account for 90 percent of the expenditures but they could never stand in front of you and be able to do that.

I yield back.

Mr. CHAFFETZ. Thank you. I now recognize the gentlewoman from New York, Mrs. Maloney, 5 minutes.

Mrs. MALONEY. Thank you. The recent history of the IRS is appalling. Democrats and Republicans are united in our outrage at the wasteful spending, the inappropriate behavior and mismanagement of one of our most important agencies. But the changes that have been put in place are dramatic, and they are having an effect. I believe you would all agree with that. Yes?

Mr. FINK. Yes.

Mr. KUTZ. Yes.

Mr. GEORGE. Yes.

Mrs. MALONEY. For example, the top three most expensive conferences outlined in the IG's report all took place in 2010, correct? Mr. George?

Mr. GEORGE. That is correct.

Mrs. MALONEY. Since then, the number of large meetings has decreased by 84 percent. The cost of the meetings has decreased by 87 percent, and the number of large meetings has decreased by 84 percent. That is definitely moving in the right direction. And the spending on the conferences with 50 or more participants was reduced from 37 million to 4.9 million in 2012, all good movement.

And I would say that the President's initiative, the government-wide campaign to cut waste, to target ineffective and wasteful spending, has been very useful and appropriate and is getting results.

But I was concerned by the video that the chairman showed us, and not only was it a monumental waste of well over \$50,000 of taxpayers' money, but I would say it is an insult to the memory of Star Trek. I could do a better Captain Kirk. But I think I recognized one of the panelists in the video. Mr. Fink, were you Mr. Spock in that video?

Mr. FINK. Yes, that is correct.

Mrs. MALONEY. So how many government employees participated in that video in acting, editing, producing? How many employees were involved?

Mr. FINK. I apologize, but I do not know the exact number of when you go to the editing and the things of that nature, I am not sure what that total number was, that participated.

Mrs. MALONEY. Well, do you think this was a responsible use of taxpayer money.

Mr. FINK. As I said, no, I do not.

Mrs. MALONEY. And did you approve this?

Mr. FINK. No.

Mrs. MALONEY. You did not approve it.

Mr. FINK. No, sir—no, ma'am.

Mrs. MALONEY. You did not approve it. Well, I would like to ask Mr. George, you did come out I believe with nine recommendations, is that correct?

Mr. GEORGE. Yes, that is correct.

Mrs. MALONEY. And of those nine recommendations, how many has the Treasury Department accepted and are supporting?

Mr. GEORGE. All of them.

Mrs. MALONEY. They are all supporting them the Treasury Department all nine.

Mr. GEORGE. That's correct.

Mrs. MALONEY. And the President of the United States I believe also came out in support of your recommendations.

Mr. GEORGE. That was actually related to the review we did on 501(c)(4) reviews, but I believe the President's spokesperson may have addressed this instant audit, but I'm not completely certain about that.

Mrs. MALONEY. So Treasury is now implementing all of the nine or how many are they implementing?

Mr. GEORGE. They are in the process of implementing all of the nine. I don't know I may again defer to my colleague, Mr. Kutz.

Mr. KUTZ. There were nine in the other report on exempt organizations, and there's nine in this report.

Mrs. MALONEY. And they are implementing all of them, is that correct?

Mr. KUTZ. That's correct. That's our understanding.

Mrs. MALONEY. And could you go over what are the most important nine in the 504(3)(c) category Mr. Kutz? What are the recommendations could you briefly go through the recommendations?

Mr. KUTZ. Well, let me touch on the most important probably, the one about the backlog. As you all know, there's a backlog of organizations that have been there, in some cases, 3 years, waiting for a decision yes or no. One of our most important recommendations is to have those addressed quickly so those people can get an answer as to yes or no.

Certainly one of the issues was whether or not the IRS had evidence of looking at political campaign intervention in 298 cases we identified. In some instances, there was no evidence in the file that there was political campaign intervention. We recommended that they actually document, if you're going to have someone wait for several years to get a response, you better have a good answer as to why you picked that case, especially if there is no evidence in the file of any political campaign intervention. So those are examples of some of the most important ones from that report.

Mrs. MALONEY. And when you say "intervention," what would you define as intervention? Paying for campaign ads? Or what is intervention? What do you define in IRS as the intervention?

Mr. KUTZ. Well, the regulation definition is supporting or opposing a particular candidate running for public office.

Mrs. MALONEY. Well, I would think that would be pretty easy to do, see whether or not they bought time on campaigns, bought TV ads. Have you looked at that?

Has the Department looked at that area?

Mr. KUTZ. I don't know if they looked at that. With respect to the 298 cases we looked at, 69 percent had evidence of significant

political campaign intervention, and 31 percent did not. And the recommendation was related to if you're going to pick a case that there's no evidence of campaign intervention, you should make sure and document why, in fact, you did that.

Chairman ISSA. [Presiding.] The gentlelady's time has expired. The gentleman from Tennessee, Mr. Duncan, is recognized.

Mr. DUNCAN. Thank you very much, Mr. Chairman, and first of all, I want to say that I very much appreciate the great opening statements that you and Ranking Member Cummings have made, especially my friend, Mr. Cummings. I just, I agree with everything that both of you said in regard to this.

I thought back though of several years ago, Edward Rendell, when he was mayor of Philadelphia, and having some trouble with some city employee unions, of course, he later became Governor of Pennsylvania, he said before the House Ways and Means Committee that government does not work because it was not designed to, he said there is no incentive for people to save money, so much of it is squandered. There's no incentive for people to work hard, so many do not. And the problem throughout government is that we don't have enough incentives or pressure for people to save money, and we end up with these ridiculous expenditures because it's not coming out of people's own pockets.

We need to make sure that in the future, that we put more incentives and more pressures and more punishments for people to not to do these types of things. I saw an article yesterday about how it's almost impossible to remove a Federal employee who messes up in some big way.

Mr. George, I also want to commend you. I think you've done great work not only on this, but on some others things for this committee and for the Ways and Means Committee, and I really appreciate what you've done. But I feel the same way that all these others who have spoken before me, not just about the Star Trek and the dance line and the line dancing and all that, but to pay \$133,000 to a firm just to locate a hotel or figure out the hotel when the IRS employees themselves could have done these things.

So we need to make sure that these things don't happen in the future. And what I have seen happen so often, when we go through these times where it gets a lot of publicity and a lot of attention but 2 or 3 years later, we are back into these things again. So we need to stay on top of that, and that's really all I have to say and I yield back.

Mr. GEORGE. Mr. Duncan, if I may, I just want to be clear, the \$133,000 paid to the event planners were paid by the hotel, not by the IRS. But they had, again, no incentive to reduce the cost to the IRS because the more the IRS paid, the more they got in commissions.

Mr. DUNCAN. Thank you for that clarification.

Chairman ISSA. I thank the gentleman. We now go to the gentlelady from the District of Columbia, Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman, and I appreciate this hearing. This, of course, is a longstanding problem, Mr. Mica, the chairman himself, have witnessed our work with the GSA. Actually, the worst year of spending apparently for the IRS, \$15 million, was the year before the President even came into office.

By now, the, what the take-away from these episodes is one that you learn from your mother and father when you are spending someone else's money, spend it even more carefully than your own. Of course, that would go especially for taxpayers' money. Now this, no matter how you look at it, this \$4 million, even if it wasn't this much as the \$15 million is an excessive amount of money. I'd like to get to the root of why in the world this conference or this training was going on. And first, I would like to ask about Anaheim. Why, Mr. Fink, was Anaheim chosen, and where did these employees originate? Where did they come from?

Mr. FINK. The Anaheim conference, the reason Anaheim was chosen is based upon the size of the conference, the number of individuals attending the—

Ms. NORTON. Where did they come from? Where were they based?

Mr. FINK. The folks that attended the conference came from, we have leaders, we have managers in 350 different locations, so they came from across the entire United States to Anaheim.

Ms. NORTON. How many came from Washington?

Mr. FINK. I don't have that exact number.

Ms. NORTON. Did most of them come from Washington?

Mr. FINK. No. No. Most of them did not come from Washington.

Ms. NORTON. So was it less expensive to have it in some centrally located, assuming Anaheim could ever be found to be centrally located? Was it less expensive to have it, Mr. George, in a place like this, which is a vacation spot? And I'm not—Mr. Clay is suggesting St. Louis, I'm not going to wish that on the IRS—but would you respond, please?

Mr. GEORGE. From the information actually that was elicited at today's hearing, we understand that Florida might have been less expensive than conducting it in Anaheim.

Ms. NORTON. Well you see suspicion is aroused whenever some sunny spot is picked and, but as you say, they came from all around the country.

Now, this was to be a training conference. IRS employees deal with highly technical, rule bound, law bound work. So I think anyone who could understand that—by the way, I want to take exception to my good friend the ranking member who sees no redeeming value in line dancing as a sponsor of National Dance Day on the Mall—

Chairman ISSA. If the gentelady would yield I don't think he went as far as to disparage line dancing. I think it was limited only to the Federal expenditure at this particular conference.

Ms. NORTON. You, of course, preempted the one admonition I would have, as a line dancer as the one who tries to do every kind of dance—

Chairman ISSA. Well, the ranking member is down there, and I'm afraid I had no chance but to speak on his behalf.

Ms. NORTON. I just wanted to stand up for the line dancers and say, hey, the IRS line dancers weren't bad at all. Too bad they weren't doing it on their own dime.

Let me ask you about this training conference. Here is a training conference, and Mr. George, as I read through the report, I couldn't

find what was the purpose of the conference? I couldn't put my finger on what is the purpose of this conference in Anaheim?

Mr. GEORGE. While I'm going to defer eventually to Mr. Fink to complete this response, there is no question as you noted earlier, Ms. Norton, there is a redeeming value for training. These are very complicated matters. The IRS is about to engage in one of the most comprehensive and unprecedented aspects of its activities in terms of implementing the Affordable Care Act. So whether or not that was an aspect of this conference, again, I will defer to Mr. Fink.

Ms. NORTON. So was the majority or the great majority or how much of the conference was devoted for training and how much was devoted to fun?

Mr. GEORGE. Well, if I may, one key aspect in all of disclosure, TIGTA, my organization had a representative—

Ms. NORTON. Now, this is very important. I was going to ask you this question. Not only were there IRS employees there, there were employees of the Inspector General there.

Mr. GEORGE. We had one employee who was there. Keep in mind this was in the wake of the tragedy that occurred in Austin, Texas, when someone flew an airplane into a building housing IRS employees, and our, one of our senior investigators spoke at a session on security and threats to IRS as a result of people who are disgruntled as—

Ms. NORTON. Did he report back—

Chairman ISSA. The gentlelady's time is expired. Does anyone else need to answer that question? Are you finished?

Mr. GEORGE. Well, I could go on.

Chairman ISSA. Well, complete your thought, please, I don't want to interrupt you.

Mr. GEORGE. My employees traveled 1 day, arrived, spoke at two sessions and then departed. The vouchers that he filed were less than approximately \$1,000, and he apparently, when he arrived, did get an upgrade to a suite, not a presidential suite or anything of the sort, but there were no regular rooms available which is what he requested when he first sought reservations at the hotel. But the bottom line is he was there to instruct IRS employees on the threats that are being presented as a result of—

Ms. NORTON. So most of the training conference was devoted to training then?

Mr. GEORGE. I don't have the entire agenda but maybe Mr. Kutz—

Chairman ISSA. The gentlelady's time is expired, you can answer for the record. The gentleman from Ohio, Mr. Jordan.

Mr. JORDAN. Thank you, Mr. Chairman.

Mr. Kutz, did Doug Shulman attend the Anaheim conference?

Mr. KUTZ. Yes, he was a speaker, he was there for one day.

Mr. JORDAN. Did Steve Miller attend the Anaheim conference?

Mr. KUTZ. There was no travel vouchers. We have no evidence that he attended the conference.

Mr. JORDAN. Did Lois Lerner attend the Anaheim conference?

Mr. KUTZ. No.

Mr. JORDAN. Did Sarah Hall Ingram attend the Anaheim conference?

Mr. KUTZ. I don't have that information, but I don't believe so.

Mr. JORDAN. Did any other individuals from the tax exempt division of the Internal Revenue Service attend the Anaheim conference?

Mr. KUTZ. No. There's no evidence anyone from the tax exempt government was at the conference or in the exhibit hall.

Mr. JORDAN. You guys your report indicates that there was \$50 million spent in fiscal years 2010, 2011, 2012, 225 conferences took place in that time period that individuals from the IRS attended. Did you look at any other conferences in detail other than the Anaheim conference?

Mr. KUTZ. No.

Mr. JORDAN. So there's 224 we don't know much about.

Mr. KUTZ. We did a drill down on the largest and when we had allegations of excessive spending.

Mr. JORDAN. Well, 14 of those 224 remaining conferences that you did not audit, 14 of those were solely for the tax exempt division, the division that targeted Americans for 3 years for their political beliefs, 14 of those you did not look at those at all?

Mr. KUTZ. No those are about \$2 million in total.

Mr. JORDAN. According to The Washington Times, the per person spending, today's Washington Times indicates that it was one of the most expensive per individual. The Tax Exempt and Governmental Entities unit to go over procedures for auditing retirement plans was one of the most expensive training sessions. Is that accurate, what is reported in today's paper?

Mr. KUTZ. I don't know.

Mr. JORDAN. Do you know of the 14 conferences that the Tax Exempt division was a part of, do you know if Doug Shulman attended any of those?

Mr. KUTZ. I have no information on that Congressman.

Mr. JORDAN. Do you know if Steve Miller attended any of those?

Mr. KUTZ. No information on that.

Mr. JORDAN. Did Lois Lerner attend any of those?

Mr. KUTZ. No information.

Mr. JORDAN. What about Sarah Hall Ingram? Do you know if she attended any of those?

Is it fair to say that the people who run that division would most likely be at one of those 14 conferences held by the Tax Exempt division in the time period?

Mr. KUTZ. Given what I read through on the high level description of the conferences, it's likely some or one of those may have been there.

Mr. JORDAN. Potentially all of them could have been at those conferences?

Mr. KUTZ. They could have potentially been there.

Mr. JORDAN. I did notice that in this Anaheim conference, there was a session entitled politically savvy training session, "how to not shoot yourself in the foot," do you happen to know if that training session was offered at any of the other 224 conferences in this time period?

Mr. KUTZ. I only know it was offered at the one you mentioned, the Anaheim conference.

Mr. JORDAN. Do you have any information on any of these other 224 conferences that were done in between 2010 and 2012 that you can offer the committee today?

Mr. KUTZ. Nothing that is in depth like the Anaheim conference, no.

Mr. JORDAN. Do you think that would be an appropriate thing to check out the fact that the very people involved with the systematic targeting of individuals exercising their First Amendment rights, political beliefs that they have that it might be appropriate to know if those individuals who headed that division were involved in some of these conferences?

Mr. KUTZ. We would certainly be willing and Mr. George can add to discuss with this committee, if you have a request for us to look at some of those conference, that's something we would consider.

Mr. JORDAN. Mr. Chairman, I would just say this, this is an agency that is just out of control. You think about one conference out of 225 and we know what happened at this conference with videos and with bags and gifts and not keeping receipts, but I think what's more telling is at the same time that this agency was targeting individuals for their political beliefs, we have the head of the agency attending the very conference where all this takes place. We are, it's a fair, I think, conclusion to reach that the people involved in the division that was targeting Americans for their political beliefs was involved in many of the other 224 conferences, and I think what is most chilling is this is the agency that began targeting people for their political beliefs the very month ObamaCare became law, March 2010, this is the very agency that will be charged with enforcing ObamaCare.

And they are engaged in this kind of activity when they're also going to be in charge of enforcing the health care law. And to me, that's what's most troubling, and I think why we need to get to the bottom of this and with that I would yield back, Mr. Chairman.

Mr. CUMMINGS. Would the gentleman yield?

Mr. JORDAN. I'd be happy to yield.

Mr. CUMMINGS. The gentleman just made a request, well, you're requesting, I just want to make sure we're clear, you're requesting additional information, additional study?

Mr. JORDAN. I think that would be helpful. I'm not, I would, I guess, not phrase that in the term in the sense of an official request, that would be something I would want to check with the ranking member, and more importantly, the chairman of the committee.

Mr. CUMMINGS. And I'll be checking with the chairman too, because as I said from the very beginning, Mr. Chairman, and Mr. George, I consider it legislative malpractice that if we don't, at some point, look at why, from 2007 to 2008 conferences, the price of conferences doubled, and it just seems to me if we're going to get to this bottom of this, and I'm not saying for one moment that President Bush knew about this or anything because I believe if he did, he probably would have done something but we do need to understand that. I yield back.

Mr. JORDAN. I was going to make one point. My only point was, we've looked at one conference and we uncovered this, by the very agency that's going to enforce ObamaCare, and there's 224 other

conferences that were going on in the same time frame. That's important.

Chairman ISSA. And for the entire committee, since this is a salient point that keeps coming back, it is the intention of the chair working with the ranking member to ask the GAO to do a current event study of where we stand with conference and travel post legislation, post the President's action, and obviously, post the good work of this IG and others. So I do think that this, I hope this will be the last time we're specifically looking at anything that isn't forward looking from 2012 on, because I do think that we really want to look at how many reforms have been accomplished.

But, Mr. George, I certainly think that if you look at current ones and find that any of these past activities are still occurring, that you inform the new Commissioner and us as quickly as possible. But I do believe that the gentleman is right, but I believe GAO to look government-wide would probably be more appropriate.

And with that I appreciate the opportunity to have the gentleman from Massachusetts be recognized.

Mr. TIERNEY. Thank you, Mr. Chairman. So before we pivot and start looking at 2013 and beyond, I want to take a look at the last decade on that, and actually let me put a chart up that we have showing just how the costs have increased over that.

Mr. George, you've already covered 2010, 11 and 12, and I appreciate your good work on that. But if we look back at 2005, according to the Internal Revenue Service data, the IRS spent about \$9.8 million in 2005. Then in 2006 that nearly doubled to \$19 million.

So Mr. Fink, do you know what caused a sudden jump in 2005, 2006?

Mr. FINK. No, sir. I do not know what caused that jump for that particular period of time. I do not, sir.

Mr. TIERNEY. Now you were named deputy commissioner in 2008, is that right?

Mr. FINK. Yes, sir.

Mr. TIERNEY. So let me ask you about the increase that happened during that year. If you look at the chart in 2007, the IRS spend about \$13.4 million on conferences. But the next year, 2008, the figure jumped to \$29 million. So just a single biggest increase involved in any of those years, what caused that \$15 million increase from 2007 to 2008, Mr. Fink?

Mr. FINK. What I would say is the years which you are citing to, the definition of conference also includes training. In those years, we had significant hiring in those years, so we would have been training a significant number of individuals in those years. So when you're having those individuals go off to training because the training was done face to face primarily at that time, I would certainly say that that would be a contributing factor to the increase in those costs, sir.

Mr. TIERNEY. So just to make sure I get this right you're saying at least in that particular year, whenever anybody got trained, you listed it as conference as a definitional matter?

Mr. FINK. From what my understanding is, sir, is that the definition that is being used around conferences also includes training and training forums.

Mr. TIERNEY. So no way to distinguish on your records as to which was which?

Mr. FINK. Actually, if you have a breakout, you can take and you can look at the individual, as I believe the Inspector General has a breakout for the years that they looked at, you can go down through the individual courses that are listed there, the individual training sessions, you can actually pick out what is the technical training for field employees and for campus employees for the service. You can actually spot it out by the name.

Mr. TIERNEY. So you went from \$10 million in 2005 to \$37 million in 2010, and you're saying that basically, all of that distinction, the reason it went so high was that the difference between the \$10 million and that was all in training added in and counted as part of a conference thing.

Mr. FINK. And I'm saying a part of it certainly had to be due to training for new hires, sir.

Mr. TIERNEY. What was the other part?

Mr. FINK. That I do not know.

Mr. TIERNEY. You don't know?

Mr. FINK. No, because I do know that we did significant hiring in those years so that, of course, would increase the costs, sir.

Mr. TIERNEY. Mr. Kutz and Mr. George, do you have any information to offer on these sharp increases in those given years?

Mr. KUTZ. Only for the 3 years where you've all mentioned that the controls that were spurred in part by the hearings this committee held and other government-wide and IRS and Treasury reforms had an impact it appears, a significant impact.

Mr. TIERNEY. So I guess the good only news is that after the GSA debacle, that some reforms were put in place and the numbers dropped now to below \$5 million, and I guess that's the case was to put these reforms in place after the GSA conference information came to light?

Mr. FINK. Actually, sir, the reforms that started at the Internal Revenue Service started in late 2010 prior to the GSA conference.

Mr. TIERNEY. Why was that? Was there somebody that called this to somebody's attention or was there an issue or?

Mr. FINK. I was not involved in that so it would be purely speculative, sir.

Mr. TIERNEY. So now we're spending less now than we were spending in 2005, so is any of what we're spending now training as opposed to conference, Mr. Fink?

Mr. FINK. Yes. We are still doing training.

Mr. TIERNEY. And that's included in that \$4 million-plus number?

Mr. FINK. I would believe that also training would be included in that, but if you want to know why there's such a sharp decrease, we're now doing a significant amount of training virtually as opposed to face to face, so the travel costs are reduced, you don't have that type of activity going on, so you have people presenting and doing it virtually, using technology.

Mr. TIERNEY. You preempted one of my questions which is why don't we do more Webinars and technological so we don't have to have the conference on that. Mr. George.

Mr. GEORGE. Mr. Tierney, I just want to add though included in this conference is what's called the tax forums in which the IRS gathers tax preparers in various parts of the country to update them on changes in tax law and IRS policies. There is a tremendous benefit to the entire system of tax administration for the IRS to conduct these, as these individuals, many of whom are tax accountants and literally individuals who prepare taxes, to make sure they're up-to-date on what the tax laws are, and many instances what to be aware of. And we receive at the Treasury Inspector General for Tax Administration sometimes many leads on people abusing the tax system as a result of these tax preparers learning what is or is not permissible and coming forward to us with those types of leads.

Mr. TIERNEY. Thank you. I guess the idea of how important a functioning Internal Revenue Service is to this country, we have all seen countries that don't have good tax collection, and what that means a nation and everything like that, and so it's something we have to get on top of here that matter are trust that Mr. Cummings was talking about is essential and we're going to keep on that. Thank you, Mr. Chairman for having the hearing.

Chairman ISSA. Thank you. Just quickly following up on the gentleman's statement, Mr. George, Mr. Kutz, is there a possibility since the exhibit that was up there really doesn't reflect conference spending at all.

Is there a possibility obviously with the acquiescence of your new Commissioner that you would provide to us a breakdown of what portion was billed as training, these true conferences, so on.

I think it would be helpful for us because certainly, we want to make sure the record is complete, and I'd leave the record open to get that so we are comparing apples and apples in conferences versus outreach to the public versus travel for training, and I do appreciate the gentleman's fleshing out that we now are taking less people to college and taking more college to people.

Mr. GEORGE. Happy to do so, again, with the, just note that if we would have to rely on information provided by the IRS itself and so—

Chairman ISSA. And the next panel will probably help us ask that again.

Mr. GEORGE. Yes, I agree sir.

Chairman ISSA. Thank you. The gentleman from Utah Mr. Chaffetz.

Mr. CHAFFETZ. Thanks, Mr. Chairman, and I thank you for having the foresight to actually call for this as we looked at the GSA, and now we are exposing this.

Mr. Fink, how long have you been at the IRS?

Mr. FINK. Thirty-two years, sir.

Mr. CHAFFETZ. And I would suspect that through that time you've been to some conferences along the way?

Mr. FINK. Yes, sir.

Mr. CHAFFETZ. How would you compare this conference to past experiences?

Mr. FINK. It is certainly in my career with the Internal Revenue Service, it is one of the largest I have ever attended but it was not uncommon in the service in past years that I've been there that

you would have large gatherings of this, of your leadership team, bringing all your managers together in a function.

Mr. CHAFFETZ. What did you personally get when you went to that conference? What did you personally receive?

Mr. FINK. For the Anaheim conference, sir?

Mr. CHAFFETZ. Yes.

Mr. FINK. The bag that was shown is what I got. Of course, it's already been mentioned, I paid the government rate and stayed in a suite, paid the \$135 for the suite, but I got the bag, and there was a notebook inside the bag, and also I believe I received what is a, it's an attachment to your lanyards that you wear for identification purposes that it is spring loaded-type lanyard.

Mr. CHAFFETZ. Anything else? Any other perks or benefits, food?

Mr. FINK. Oh, there was, I believe if you look at the record, and I believe it's in the Inspector General's report, there was 25 baskets of fruit that were in each of the two primary hotels.

Mr. CHAFFETZ. And how big was your room? Did you ever stay in a room like that.

Mr. FINK. Yes, I have, sir.

Mr. CHAFFETZ. When was that?

Mr. FINK. I paid for a room like that personally, sir, and also I would mention to you that in another conference, sir, where there was, we had reserved most of the hotel, it was a very, very large conference, I was given a suite not quite that large, but it was a suite.

Mr. CHAFFETZ. When and where was that?

Mr. FINK. That was in, the one that I have the most recent recall of in memory was in Chicago, sir.

Mr. CHAFFETZ. And when was that?

Mr. FINK. I believe it was actually in, I would be speculating, but I believe it was in 2009.

Mr. CHAFFETZ. So is it because of your rise in rank, did you believe you were entitled to this?

Mr. FINK. No, sir.

Mr. CHAFFETZ. Why did you get it then?

Mr. FINK. My understanding is it was part of what was negotiated with the hotel as part of the arrangement for us taking a significant number of the rooms in the hotel for the conference, sir.

Mr. CHAFFETZ. When did you think this was wrong?

Mr. FINK. The conference in general?

Mr. CHAFFETZ. Yeah.

Mr. FINK. I don't think the conference, I think now that we should have been, we should have been paying closer watch to our expenditures and the expenses. I don't think the conference itself was wrong because of the time that we ran at the Internal Revenue Service, 30 percent of our managers in small business were brand new, we were going through a very difficult time in trying to get our leaders to recognize—

Mr. CHAFFETZ. So when did you think that the something was wrong here?

Did you ever think something was wrong here? What do you think is wrong about this picture?

Mr. FINK. I think now that in retrospect in looking back that you take a look at the expenses. We should have been more diligent in

our responsibility to the American taxpayer and to the American public.

Mr. CHAFFETZ. And you're in charge of this group, right?

Mr. FINK. At this time I am, yes.

Mr. CHAFFETZ. And you were the number two at the time of the conference?

Mr. FINK. Yes, sir.

Mr. CHAFFETZ. When did it strike you that this was wrong?

Mr. FINK. As I said—

Mr. CHAFFETZ. When you got called to testify before Congress?

Mr. FINK. No, sir.

Mr. CHAFFETZ. Well, when?

Mr. FINK. As I said, I do not think that the conference itself, the premise it was based upon, was wrong because of the needs of our employees at that time. I do not think that the conference was wrong.

Mr. CHAFFETZ. When did you become aware of the massive expense?

Mr. FINK. I actually did not become aware of the massive expense until much later. I did not know what the expense was at the time of the conference that we were paying, I did not know what those expenses were.

Mr. CHAFFETZ. And you're the number two person in that division?

Mr. FINK. Yeah—

Mr. CHAFFETZ. You're oblivious to the expenses? You're totally ignorant of the expenses?

Mr. FINK. I was not involved in the planning or execution.

Mr. CHAFFETZ. Who was?

Mr. FINK. They put together a planning team that—

Mr. CHAFFETZ. Yeah, we've all watched "The Office," we know what the party planning committee is.

But who specifically authorized this? And when did you realize that it was wrong?

Mr. FINK. If you look at the Inspector General's report—

Mr. CHAFFETZ. No, I want to know from you. You're in charge. This is what's so infuriating. You're in charge. You have a public trust. You're paid by the American taxpayer to be responsible, to be respectful, to have knowledge, to have oversight, and yet you can't even tell me when you thought this was wrong. In fact, you're saying that well it was a pretty good conference.

Chairman ISSA. The gentleman's time is expired, but I would like to hear an answer to the question.

Mr. Kutz or anyone who wants to respond to the gentleman.

Mr. KUTZ. Well, I would say the documents we saw that authorized the conference, actually Mr. Fink signed requesting it for Mr. Wagner, the Commissioner, and then it was authorized by the two deputy commissioners. This was in April of 2010.

Mr. CHAFFETZ. Clarify that for me. Mr. Fink, actually signed off on this?

Mr. KUTZ. On the request for approval by the two deputy commissioners that he had signed for Mr. Wagner, I believe, in April 2010 for estimated \$4.3 million conference at that point in time.

Mr. CHAFFETZ. And so when did you realize that this was wrong? You signed the authorization before it happened.

Chairman ISSA. I'd ask that the gentleman have an additional 2 minutes for this specific and limited line of questioning, please.

Mr. CARDENAS. Point of personal privilege, Mr. Chairman, I do not watch "The Office" so I don't know who the collective "we," is but it's not me.

Chairman ISSA. That will be noted for the record.

Mr. CHAFFETZ. I appreciate the chairman.

Mr. Kutz is saying you personally signed the documents, with the dollars on it, before the conference. Would you agree or disagree with that?

Mr. FINK. I initialed the routing slip that went to—

Mr. CHAFFETZ. What does that mean to you? Do you have any responsibility for that?

Mr. FINK. I attended the briefing that was done for the two deputy commissioners.

Mr. CHAFFETZ. Did that include the cost of the conference?

Mr. FINK. If I remember correctly, the briefing that was done for the two deputy commissioners, yes, that included a discussion of the—

Mr. CHAFFETZ. And that raised no warning flags? There was no bells that went off in your mind? And you didn't think that that was wrong?

Mr. FINK. At that time because of what we were experiencing at the service—

Mr. CHAFFETZ. What was that experience?

Mr. FINK. We were experiencing a whole new taxpayer base that we were entering—

Mr. CHAFFETZ. You testified—you testified that when you thought it was wrong is when you became aware of the expense, but we just heard from Mr. Kutz you signed off on a routing slip, you participated in meetings understanding the costs before the conference happened.

Are you here claiming no responsibility at this point?

Mr. FINK. Absolutely not. That's why I am here.

Chairman ISSA. The gentleman's time is expired. Mr. Fink, strictly for the purposes of we put you under oath, if I heard correctly, and maybe if necessary, we can have it read back, you had answered that you were not aware in some fashion of the cost of these, and then Mr. Kutz made it clear that you signed a routing slip. You made it clear that you attended briefings in which you knew cost.

Would you like to revise your initial statement about not being aware of the cost? It's not about whether it's justified, but I think that the IG's investigation would say that you want to be much more accurate.

Did you know about the cost, and if so, when, which is what I think the gentleman's line of question is. And I don't want to trap anyone, but I can't square those two right now.

Mr. FINK. Okay, I was aware of the cost when we did, the estimated cost of \$4.3 when we did the briefing for the two deputy commissioners of the Internal Revenue Service. That's when I became aware of the estimated cost.

Chairman ISSA. And that was \$4.2 million?

Mr. FINK. Four point three.

Chairman ISSA. Four point three million. There may be additional questions but I want to make sure for the record and I thank the gentleman for Utah because I think we now have a better understanding.

Mr. CUMMINGS. Mr. Chairman.

Chairman ISSA. Yes.

Mr. CUMMINGS. With all due respect, we just lost a member because he had to get out of here.

Can we have an additional 5 minutes on our side? Do you follow me? In other words, he just—

Chairman ISSA. If you find a witness who is in potential liability of perjury and you want to clarify the record we will do so. The gentleman's is recognized for 5 minutes, more, if absolutely necessary.

Mr. CUMMINGS. Wait a minute. Whoa. Whoa. Whoa. Hold on. Wait a minute. I just asked for equal time. I just said that we had a member that had to leave, and I did not object to Mr. Chaffetz, I wanted to hear the answers to his questions. It has nothing to do with perjury. But I'm just asking for equal time. That's all I'm asking for. And I think that's not unreasonable.

Chairman ISSA. It's not a rule of the committee. I said Mr. Clay is recognized for 5 minutes or more if necessary.

Mr. Clay.

Mr. CUMMINGS. Thank you.

Mr. CLAY. Thank you. All right. Thank you, Mr. Chairman. And the IG's report referenced three trips that multiple IRS employees and two event planners took in November, 2009, June 2010 and August 2010.

Mr. Fink, can you elaborate on why three separate planning trips were needed for the Anaheim conference?

Mr. FINK. There were actually were, yeah, I can elaborate. There were two separate planning trips that were done. A third trip was actually done the week before the conference to make sure that everything was set up and ready to go for a conference of that size. I think that in retrospect, in looking at those trips and what occurred there, absolutely we should have used local individuals to conduct those planning trips, those visits, because it was very easy to have done that by using local individuals as opposed to traveling folks to Anaheim.

Mr. CLAY. Did you approve these planning trips?

Mr. FINK. No, sir.

Mr. CLAY. Do you know who did?

Mr. FINK. The then sitting Commissioner.

Mr. CLAY. The IG's report says that the audit, "did not identify any policy or guidance that outlined the reasons when and why planning trips should be performed for conferences, the appropriate number of employees attending or whether approval is needed from senior management in advance."

And Mr. Fink, what is your response to that criticism?

Mr. FINK. In reading the IG's report, at that time, I believe that is accurate, that is accurate that there was no criteria or guidance at that time around those planning conference. Since that time, of

course, we have made changes that do put stricter and tighter guidelines around doing those types of visits and types of trips.

Mr. CLAY. And what level of approval is needed for these planning trips now?

Mr. FINK. I do not know, sir, I can get that for you.

Mr. CLAY. The IG report concluded, "the costs associated with these planning trips may have been excessive based on the number of employees who were involved."

Mr. Kutz, how many people went on each of these planning trips?

Mr. KUTZ. The November 2009 trip included three staff and cost \$3,500 of travel, the June 2010 trip had eight staff that cost \$10,300 for travel, and what Mr. Fink described as the week before the conference was 16 staff costing \$22,000, and I believe the majority of these staff were from Washington, D.C.

Mr. CLAY. I'm astounded. I'm astounded it takes three trips to go and plan a conference. I don't understand it.

Mr. Fink, why were so many people needed for the trips?

Mr. FINK. The primary reason is because of the size of the conference, the number of individuals who were attending, setting up the logistics of the fact that the conference was over a 3-day period, 8 hours a day, that's why as I did state that absolutely now in retrospect when you look at it, it was unnecessary for people from Washington.

Mr. CLAY. It's almost like the joke, how many people does it take to change a light bulb?

Mr. George, your report raised a concern that appropriate personnel did not sign the letters of intent with the hotels. Your report said this letters of intent are used by the IRS to secure hotel space for offsite events. Your report also states that these letters are normally required to be signed by centralized delivery services, the organization responsible for coordinating space for IRS events or procurement personnel. However, in the case of the Anaheim conference, a general schedule 14 revenue officer in charge of conference planning signed the letters of intent with the three hotels. Do you know who authorized the GS-14 to sign the letters of intent?

Mr. GEORGE. I'm going to ask Mr. Kutz to respond to that, sir.

Mr. CLAY. Mr. Kutz.

Mr. KUTZ. The GS-14 did sign. The contracting officials told him it was okay to sign because the letter of intent was not a binding agreement for the Internal Revenue Service, so at the end of the day, that is, in fact, what the agreement was that was used.

Mr. CLAY. And those were the concerns raised I'm sure. And as a matter of fact, this revenue officer was the one signing the letter of intent, is that correct?

Mr. KUTZ. We certainly would have concern if a GS-14 committing the Internal Revenue Service to several million dollars of spending yes, Congressman.

Mr. CLAY. And Mr. Fink why was a GS-14 revenue officer permitted to sign a letter of intent?

Mr. FINK. I believe, sir, to the best of my recollection, it is because he had been involved in planning activities on other conferences that are listed in the Treasury Inspector General's report

that he had some experience and knowledge, and that he had also coordinated this with the centralized services unit.

Mr. CLAY. And did the same GS-14 revenue officer who signed the letters of intent with the hotel choose the outside conference planners who planned the conference?

Is that the same person?

Mr. FINK. To the best of my knowledge, sir, yes.

Mr. CLAY. Had this revenue officer planned previous conferences with these same planners?

Mr. FINK. That, sir, I do not know.

Mr. KUTZ. Congressman, my understanding is yes.

Mr. CLAY. And under what authority did the GS-14 prepare and sign these sole source justifications?

Mr. FINK. I believe he was asked to do that by the then-sitting Commissioner of the Small Business Division. I believe that is who asked him or instructed him to do that in coordination with the planning committee.

Mr. CLAY. And Mr. George, do you know where this revenue officer stayed during the conference?

Mr. GEORGE. I don't have that information. Maybe Mr. Kutz.

Mr. KUTZ. He stayed in the presidential suite for 6 nights.

Mr. CLAY. Mr. George, your report states that six employees were given awards totaling \$6,000 for their work on the Anaheim conference, including \$2,000 each for two employees who were primarily responsible for coordinating the conference planning.

Did the GS-14 revenue officer receive one of these awards?

Mr. GEORGE. My understanding is that he did.

Mr. KUTZ. He received a \$2,000 award for the conference work.

Mr. CLAY. And who approved these awards?

Mr. KUTZ. I'm not sure who approved that award.

Mr. CLAY. Had the GS-14 in question received any previous awards for work planning conferences?

Mr. KUTZ. We're not aware of that.

Mr. CLAY. I wonder how much work the GS-14 did when you had an outside firm doing the conference planning. How much sense does that make, Mr. Fink?

Mr. FINK. I'm not aware of how much work they did. I do not have specific knowledge.

Mr. CLAY. Mr. Chairman, I'm going to yield to—

Chairman ISSA. Yes, I think the gentleman would like a couple of minutes.

Mr. CUMMINGS. First of all, Mr. Chairman, thank you for your courtesy. I really appreciate it.

Mr. Fink I just want to go back, and the chairman and I were just talking and I have a tremendous amount of respect for what he said to me just a moment ago, and that is that we're not trying to get anybody in any trouble with regard to perjury, but we want to make sure, that is why we want to be real clear on this. This is the committee where Roger Clemens testified, and next thing you knew, he found himself in some trouble. So we just want to be real clear so you can clear the record.

So you knew, you did have knowledge of the, this Anaheim conference and how much it would cost before it went, it happened, is that right?

Mr. FINK. Yes, sir, I did. Yes, sir.

Mr. CUMMINGS. And so you signed some documents, is that right?

Mr. FINK. Yes, sir.

Mr. CUMMINGS. Like Mr. Kutz said. Did you look at the documents that you signed with regard to the cost of this? I mean, in other words sometimes people just sign documents and then pass them on. What was your, how did that work for you? What happened?

Mr. FINK. When I signed the routing slip, Representative Cummings, I was given all the documents in a binder, a binder. Then I went through that binder, looked and saw in that binder what I said that previously being indicated as the estimated cost of the conference. And then I initialed off on that binder because we'd already previously had briefed the two deputy commissioners, and then forwarded that binder to the deputy commissioner.

Mr. CUMMINGS. So you were aware?

Mr. FINK. Yes, sir.

Mr. CUMMINGS. Did you think that that cost was kind of high? Did you ever say that to yourself?

Mr. FINK. No, sir. I did not.

Mr. CUMMINGS. Looking at it in retrospect, do you feel that way?

Mr. FINK. Yes, in retrospect as I said we certainly could have saved money and done that conference—

Mr. CUMMINGS. And my last question, I watched your video. You were Dr. Spock?

Mr. FINK. Yes, sir.

Mr. CUMMINGS. Did you ever sit there and say to yourself, well, maybe this isn't right, and if somebody sees this the taxpayers are not going to like this?

Mr. FINK. Absolutely, sir.

Mr. CUMMINGS. While you were doing it?

Mr. FINK. After I saw the production, as I mentioned, I fully regretted it.

Mr. CUMMINGS. And to this day, and thank you, Mr. Chairman, I got to ask this though, do you see the redeeming value in that video?

Mr. FINK. No, sir.

Mr. CUMMINGS. So you agree with me?

Mr. FINK. Yes, sir.

Mr. CUMMINGS. I feel better now that you agree. Thank you.

Chairman ISSA. I thank the gentleman. We now go to the gentleman from Michigan, Mr. Walberg.

Mr. WALBERG. Thank you, Mr. Chairman, and thank you for laboring on this oversight not just this particular issue which is tough to look at as a taxpayer, as a citizen, as a representative. It reminds me of an early morning walk in the feed room in my barn and turning the lights on after dark and hearing the sounds of scurrying things going for the corners, because the light is being turned on.

And, Mr. Fink, you know, I'm not so concerned about how you feel about it now, or even back how you felt about it back then, I can't confirm one way or another. I certainly understand the embarrassment that you must feel about it, this all taking place now.

I appreciate the apology. But it's after the fact, and I'm certain that probably the biggest reasons for the concern now is because it has all come to light.

Let me ask you a question. You've made apologies, you've said that there are measures being taken, that this isn't going to happen again, this isn't happening now. What type of confidence do you have that that is true? That measures are in place to make sure that this does not happen again, that there are Webinars, that there are things that we do in light of the fact that what taxpayers are going through right now, that this has changed?

Mr. FINK. The confidence I have is based upon if you take a look at how significantly all the costs have dropped based upon what the Inspector General has reported, I—that gives me tremendous confidence.

I will tell you, also, I have confidence in the fact that looking at the changes that have been put into place, the guidance that is there, and the other reason I also have tremendous confidence is because the Acting Commissioner has come in and he has clearly spelled out what his expectations are. And when this came to his attention, he clearly spelled out that he was appalled at this, that he looked at the expenses, that he saw the video, and that it troubled him so that gives me tremendous confidence that it would never happen again on his watch.

Mr. WALBERG. Well, we're looking forward to hearing that from him, but in the culture and again, I would agree with the chairman that probably the overwhelming majority of Federal employees are doing the job that they've been asked to do or have been given to do and are doing it to the best of their ability, but here is a culture, there were numerous people involved in the videos and everything else, the planning, the costs, understanding it and yet the culture said, who cares? We can do this because we can do this because we can.

And it happened. And when I sit in the situation where this week, in fact, a 59-year-old lady, single parent, calls and says I've been told by my home health care provider employer, she was a home health care worker, that she is being cut back to 28 hours because of ObamaCare, and the IRS is responded with administering major portions of ObamaCare, and we see the culture that allowed this type of thing to go on without respect for that 59-year-old tax-paying mother, single parent, who is now concerned about losing her home because she doesn't have the hours that she needs, that she had before this implementation and we hear what goes on in this culture, I'm greatly concerned.

Mr. GEORGE, I think I heard you say that you received notification of this problem from a whistle-blower was it?

Mr. GEORGE. I use that term generically, it was an IRS employee who did alert us to the fact of excessive spending at this conference.

Mr. WALBERG. So there was one person that was willing at least to step up to the plate to say we think there is a problem?

Mr. GEORGE. That is correct.

Mr. WALBERG. Mr. Fink, I hope, I hope that the culture in the IRS, even if it's just because you got caught, is changing to say that

this will not continue on even after the light of day has been turned off to some degree on it.

I have in my hands a copy of a letter that was written to Secretary Lew by Senator Coburn ultimately responding from a letter he had sent back in April of 2012 to then-Secretary Tim Geithner asking for a full listing of all conferences attended by department employees during fiscal years 2010, 2011, 2012, attended by, as the letter says, 50 or more Treasury staff and on that list there were only five conferences with a total cost under \$500,000. Subsequent to that, this has all come out, with costs including the largest component of Treasury which is the IRS, of \$50 million on hundreds of conferences over those 3 years. So the request is being made to say, why weren't we given the information?

So I would ask Mr. George and Mr. Kutz, why did that take place then? Has the culture changed now so that even from Treasury, we will get accurate information to Congress, and we won't feel we've been given inaccurate information, incomplete information, in fact, concerning, a concern about having even truthful information?

Chairman ISSA. The gentleman's time has expired.

You may answer, please.

Mr. GEORGE. The environment has changed entirely, Mr. Walberg. There is no question about that. And so that was not top priority for the administration in the wake of the GSA revelations. And then of course, with this report, it is obvious that this is a major issue, and it's something that the administration, to its credit, has taken steps to address.

But there's something very important, sir, I need to note. As Mr. Fink pointed out, and as we have both in our audit report and during this testimony, new policies have been put in place. The key is to ensure that the policies are being followed. So they are there, but if they're not being implemented and oversighted in terms of what my office does, but more importantly, what managers within the Internal Revenue Service do, it could be for naught.

Mr. WALBERG. Absolutely.

And, Mr. Chairman, I thank you for that. But I think it was notable what he said there, that in the past it didn't seem that important to the Treasury Secretary and others who were responsible for this. That has to change.

Chairman ISSA. And with our help, I hope it will.

Mr. WALBERG. Thank you.

Chairman ISSA. We now go to the gentleman who probably has more Federal workers in his district than anybody but possibly the ranking member, Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman, and that's probably true.

Mr. George, there was a time, as the ranking member pointed out in his opening statement, where the amount of money spent on these conferences doubled in one fiscal year. What was going on in the IRS that it would double in one fiscal year?

Mr. GEORGE. I do not have that information, sir.

Mr. CONNOLLY. Mr. Kutz, Mr. Fink, either of you?

Mr. KUTZ. We just looked at 2010 to 2012 as part of this.

Chairman ISSA. Would the gentleman yield?

Mr. CONNOLLY. Of course.

Chairman ISSA. You were out of the room at the point where we discovered that these numbers we have been looking at are combined. They are conferences, travel, training, and others. And the next witness will confirm. But we've asked to have them broken down so the committee would get the details because it's apparently a substantial amount of this was travel related to training specifically, training of new employees.

Mr. CONNOLLY. So it could have been just we were upping the training of a lot of new employees?

Mr. GEORGE. That is a possibility, sir, yes.

Mr. CONNOLLY. Yeah. Okay. I thank the chair.

Mr. George, your report found that the IRS contracted with 15 outside speakers to present at a conference for a total cost of \$135,350. Is that correct?

Mr. GEORGE. Yes, it is, sir.

Mr. CONNOLLY. And one speaker was paid \$17,000 for two presentations. Is that correct?

Mr. GEORGE. That's correct.

Mr. CONNOLLY. And your report further stated that the contract signed by the IRS said "In each presentation, he will create a unique painting that reinforces his message of unlearning the rules, breaking the boundaries, and training the thought process to find creative solutions to challenges." The speaker then proceeded to paint six such paintings, including subjects such as Albert Einstein and Michael Jordan. Is that correct?

Mr. GEORGE. Yes, among others.

Mr. CONNOLLY. Among others. Do you believe paying a speaker \$17,000 to paint pictures for IRS employees was an appropriate use of taxpayer dollars?

Mr. GEORGE. I do not, sir.

Mr. CONNOLLY. Either of the two of you can weigh in here.

Mr. KUTZ. I would agree with the Inspector General.

Mr. FINK. I would agree.

Mr. CONNOLLY. Why did the IRS hire this speaker-painter?

Mr. FINK. The individual that you are referring to had spoken to numerous private sector companies, as well as other government agencies. And the way that he presents his information is, is he picks subjects to do a painting on and then talks about their leadership attributes, their characteristics. What it ties to as far as viewing things differently and changing the way you think about things is the way he goes about doing the presentation is, is that, of course, is you cannot recognize the image. In some cases he will actually paint the image upside down. But then as he goes through it, he talks about what their leadership characteristics were or what the unique challenges were that they faced and how they had to overcome certain challenges.

For example, you pointed out, I believe it was mentioned, Michael Jordan. He basically spoke about Michael Jordan's drive, you know, the fact that he was so committed to being the best and always trying to improve. So that's how he does the painting, and he relates the painting and his message are tied together around what you would hope would be positive leadership characteristics, sir.

Mr. CONNOLLY. I guess I understand the principle, and I suppose it's easy to dismiss it, but when we're trying to be good stewards and guardians of taxpayer investments, especially when our mission is to collect taxes, it strikes me as maybe—no, not maybe, it strikes me as really a less than judicious use of taxpayer money. And this is the final question, I guess to ask all of you. It shows to me a culture of both arrogance and tin ear; tin ear as to how might this look.

You know, the one thing about those of us who run for elective life is, we do ask ourselves the question, how would this look on the front page of the morning paper? And if the answer is not so good, smart politicians don't do it. It looks to me like this question never got asked in this—let's even concede well-meaning, well-intentioned set of activities, but it was, you know, one has to judge it on a range of insensitive to stupid, and not a wise use of taxpayer money. And there were other ways to make that point and to do that without being, in retrospect, becoming an object of ridicule and enormous anger by taxpayers who foot the bills.

And I just, if the chairman would allow the three panelists just to comment on what appears to me and others as, frankly, a culture of arrogance and a real tin ear to the concerns of the public to pay the bills.

Mr. George.

Mr. GEORGE. I agree with everything you said, Congressman. And I know this term is somewhat overused, but the optics, there seems for some reason to have been just a lack of regard in terms of how this would be perceived by the American people in the times that we find ourselves in.

Mr. KUTZ. This is not a case today of fraud or criminal activity. This is a case of people that lost sight of the fact that they were spending taxpayer money and not their own.

Mr. CONNOLLY. And I agree with you, Mr. Kutz. I would certainly stipulate it's not a matter of fraud or embezzlement. It's a matter of very stupid judgment.

Mr. Fink.

Mr. FINK. And as I have said, in looking back in retrospect, and even at that time, this was not a good use of taxpayers' funds, it was an inappropriate use of taxpayers' funds, and we should have went about this in a much more judicious, much more prudent manner than we did.

Mr. CONNOLLY. I thank the gentleman.

And I thank the chair for his indulgence.

Mr. GOWDY. [Presiding.] Thank the gentleman from Virginia.

The chair would now recognize the gentleman from Tennessee, Dr. DesJarlais.

Mr. DESJARLAIS. Thank you, Mr. Chairman, and I do thank the panel for being here today.

And I would like to say, Mr. Fink, we've had several hearings, as you know, on the Hill regarding issues surrounding the IRS, and when you started your testimony, the one thing you did that I appreciated was that you sincerely apologized, you showed remorse, and I think you are genuinely embarrassed, unlike your predecessor Commissioner Shulman, who when asked whether he was sorry or apologized, I think that what we got, at best, a back-

handed apology that he was sorry that it happened under his watch, which I interpret that he is maybe embarrassed because it might make him look bad. So I do appreciate the fact that you do seem to care, and I think a lot of people do as well.

But let's look at what the American people and the taxpayers got for their \$4.3 million at this conference in Anaheim. Can you tell me what the main purpose that your division was there for at this conference?

Mr. FINK. Yes, sir. And if you don't mind, I do truly regret this. I really do.

The main reason there was because we had had a significant turnover in the leadership in the organization in Small Business. Also, at this time, we were experiencing an entire new customer base in Small Business, folks that had not had tax problems before, for whatever reason were coming in to interact with the Service. They were having difficulty remaining in compliance. Along with that, the third primary item was is that, as the Inspector General mentioned, is that we had an increase in security concerns out of the incident that occurred in Austin, Texas.

Mr. DESJARLAIS. Because I have limited time, you have a term for the purpose of this, and that's continuing professional education. Is that correct?

Mr. FINK. Yes, sir.

Mr. DESJARLAIS. Okay. Do you believe that professional continuing education occurred at this \$4.3 million conference?

Mr. FINK. I apologize, but not in the videos, the dance videos, the "Star Trek."

Mr. DESJARLAIS. Okay.

Mr. FINK. There were learning lessons there, sir.

Mr. DESJARLAIS. Now, you have methods of tracking this. You have 2,700 people to keep track of. You said they are there for a 3-day period, 8 hours a day. How did you keep track of these 2,700 attendees? What did they do to get credit for these CPEs?

Mr. FINK. They did not get CPE credit, sir, because we were not keeping individual track of their attendance at different parts of the event, so they did not get CPE credits. All they got was on our internal system, they received what would be characterized as leadership training.

Mr. DESJARLAIS. How was their attendance determined? Was there videos? Was there head counts? Was there a sign-in sheet?

Mr. FINK. No, sir, there was not.

Mr. DESJARLAIS. Okay. So we have all these people, there really was no accountability in terms of whether or not they actually gained any new knowledge on this particular trip. I mean, we don't know whether they crossed the street and went to Disneyland during this 8 hours.

Mr. FINK. We absolutely—I cannot sit here and say absolutely they did not, sir.

Mr. DESJARLAIS. Do you know of people who did go to Disneyland when they were supposed to be in this 3-day, 8-hour a day?

Mr. FINK. No, I do not, sir.

Mr. DESJARLAIS. Did anybody talk about it? Has anyone talked about going other places rather than being at this \$4.3 million educational seminar?

Mr. FINK. Not during—no one has talked about going during the seminar, but some people did, yes, absolutely talk about going places in the evening, sir.

Mr. DESJARLAIS. So we really couldn't account for the 2,700 people. So this conference was probably an abysmal failure when you look at the total number. We didn't have any way of tracking. We don't know if they were educated. So essentially this was not a good conference. We got 224 more of these to look at, so we'll kind of—we'll stop there.

You know, when the American people don't listen to the IRS, and they don't pay their taxes, they actually can go to jail, get extreme penalties. What do you tell the people that their retribution may be when their taxpayer money that they did send in is wasted in this fashion? Is there any way that they can recoup this kind of money?

Mr. FINK. Not that I'm aware of, sir, other than apologizing sincerely.

Mr. DESJARLAIS. Okay. So I mean people, if they don't pay their taxes they can apologize sincerely, but they can still go to jail.

Mr. George, if Mr. Shulman or Lois Lerner perjured themselves in a prior hearing here should they go to jail?

Mr. GEORGE. It would depend upon the Department of Justice.

Mr. DESJARLAIS. So if Mr. Shulman said he never had a discussion with the White House about the targeting or Lois Lerner turns out that she knew more about these alleged two rogue agents that we now know may be 80, if they weren't truthful with us should they go to jail like the American people go to jail if they don't comply with the IRS?

Mr. GEORGE. They should be subjected to the criminal penalties associated with perjury.

Mr. DESJARLAIS. Do you agree, Mr. Fink?

Mr. FINK. I would say, as the Inspector General said, it is of course up to the Department of Justice.

Mr. DESJARLAIS. Well, I know people get frustrated, we have these hearings, and we never seem to get accountability, but it sounds like we're getting somewhere. And I thank you all for your time and attention.

I yield back.

Mr. GOWDY. I thank the gentleman from Tennessee. The chair will now recognize himself for 5 minutes of questions.

And I will say this to the witnesses. I prepared a list of questions for all three of you. But during the ranking member's opening statement—I shared with him on the floor—my mind went away from the questions, and it went back to South Carolina. In the very same month, the very same year that the IRS was conferencing in Anaheim, we were furloughing law enforcement officers. We were furloughing teachers. Prosecutors in my own office were furloughed, secretaries in my own office were furloughed. Those are secretaries who struggle to make ends meet under the best of circumstances. And here we're asking them to go 2 weeks without pay, and we canceled all out-of-town training. We brought our own

food to our Thanksgiving and Christmas office socials. We started an anonymous fund to help our fellow employees who were struggling to make ends meet.

And one night one of my secretaries came in after hours and asked if she could borrow the money to buy her child a birthday present. And she kept apologizing for having to do it. She kept saying, I'll pay you back, I'll pay you back.

And at exactly the same time that young government employee, single mom, was borrowing money for a child's birthday present, other government employees were staying in \$3,500-a-night rooms. Other government employees were spending more money on promotional materials than that young woman makes in a year. And other government employees were spending more money on audience participation tools than that young woman makes in a year.

So, Mr. Inspector General, I appreciate the work that you've done, but with all due respect, this is not a training issue. This cannot be solved with another Webinar. This can't be solved with just one more recommendation. If we can just get that recommendation implemented. We're just one recommendation away from people acting responsibly.

Mr. Inspector General, we can adopt all the recommendations you can possibly conceive of. I'd just say it strikes me, and maybe it's just me, but it strikes me as a cultural, systemic, character, moral issue.

The IRS has been in existence, depending on how you want to count, either since 1862 or 1918. But in either event, they've had 100 years to figure out that while your fellow Americans are losing their jobs, and their health insurance, and their homes, you do not spend \$4 million at a conference for which there is no accountability. You do not hire people to make meaningless speeches, or artists to paint paintings of Bono. When your fellow citizens, the ones who pay your salary are struggling, that is a character issue. Training cannot fix that.

They sent more than 25 employees on a scouting trip to see whether or not the hotel was okay. That's not going to be fixed with training, Mr. Inspector General. When you've got law enforcement officers being furloughed and you've had 100 years to figure out how to act appropriately, you don't need an IG report to tell you that spending \$27,000 for someone to talk about how random combinations of ideas can drive radical innovations, there's not a Webinar in the world that's going to fix that.

So, Mr. Inspector General, in reality, it just strikes me that we just need one single recommendation. Start over. This entity has not only targeted citizens that it was supposed to serve, it's allowed itself to be used as a political tool. Not only does it have access to our financial information, it will soon have access to our health information. Those are details that we don't share with people that we do trust, and we are going to be asked to share it with people who are so disconnected as to spend this amount of money, while our fellow citizens are struggling mightily in the fall of 2010. I don't think training is going to fix it. I think replacement might.

With that, I would recognize the gentleman from North Carolina, Mr. Meadows.

Mr. MEADOWS. Thank you, Mr. Chairman. And I want to follow up on that, because it's hard to go back and talk to the people back home who have lost their homes, who have lost their jobs and with any clear conscience at all justify any part of this behavior. And quite frankly, I find your apology today hollow. It's not enough. You know, an honorable man would do more than that.

And I am troubled by the lack of information that was provided to the Inspector General's office. You know, I look at this report and they can't draw a conclusion because you can't provide them, Mr. Fink, with documentation. We don't even know what the total cost of this conference was. You know, it's been reported that it was \$4.1, but I've done the math. It's more than \$4.1. There is no way. So what was the cost, Mr. Fink? Do you know?

Mr. FINK. The costs that I'm aware of, sir, is the \$4.1.

Mr. MEADOWS. Well, I can do the number just based on what's in the IG's report, and I think they would concur with me, there is no way that that can be accurate. Because if you look just at the basic numbers, we are at \$4.1, just on the amount of documentation. If you take 2,500 employees and travel vouchers at \$3.8, if you just do the math, you're at \$4.1 before we figure in anything else. You can get to \$4.5 almost immediately, and that's with 90 percent of what you said. Your testimony said 90 percent was undocumented, is that correct, that you were only able to document 90 percent of the costs?

Mr. FINK. Yes, sir, that is correct.

Mr. MEADOWS. Okay. So how do you know that if you don't know the total cost? How do you know that that 90 percent, how do you know that the testimony here today at 90 percent is accurate if you don't know the total cost? Did you just make it up?

Mr. FINK. No, the—no, the 90 percent is based upon, if I'm not mistaken, and I think the Inspector General—

Mr. MEADOWS. I'm asking you. It was your testimony.

Mr. FINK. It's based upon what the overall costs shown in the report were, the \$4.1 million.

Mr. MEADOWS. So you only have 90 percent of the documentation, of the \$4.1, not necessarily of the total cost?

Mr. FINK. I believe that is correct, sir.

Mr. MEADOWS. All right. So it could be \$5 million? It looks like it probably was. Could it be \$5 million, yes or no?

Mr. FINK. Yes.

Mr. MEADOWS. All right. Could it be \$6 million? Think carefully, you're under oath.

Mr. FINK. Yeah.

Mr. MEADOWS. Could it be \$6 million?

Mr. FINK. There's no way that I'd know that, sir.

Mr. MEADOWS. But we know that it could definitely be 5.

Mr. FINK. It could go higher, yes, sir, absolutely to 5.

Mr. MEADOWS. All right. What surprises me is a guy that's been paid for 32 years to hold the American people accountable is not accountable to those same people when he's documenting his own costs in his department. Why is that? The American people want to know? Why is that?

Mr. FINK. At the time of the conference, there was no guidelines or requirement to track costs for that particular training event,

that particular conference. We implemented the use of that code to track the conference expenses.

Mr. MEADOWS. All right, so let me ask you a question. Yesterday I think you met with Senate committee members. Is that correct?

Mr. FINK. Their staffs.

Mr. MEADOWS. Their staffs, right.

Mr. FINK. Yes, sir.

Mr. MEADOWS. In that particular time, the general consensus was, is that you didn't think that the \$4 million was really a problem. Did they mischaracterize that? Because your testimony today is that you have had this epiphany that it was a problem, but yesterday they didn't see that you saw that it was a problem. When did it become an issue to you, Mr. Fink?

Mr. FINK. It was an issue with me yesterday, too, sir. As I stated is, is that if you look back in retrospect, we certainly could have done better for the American public and the taxpaying public. We certainly could have been more efficient and more effective.

Mr. MEADOWS. Not more efficient, more accountable. You know, I mean, when we get to—and I'm running out of time, so let me finish. You also say that all of this was done because you had 30 percent new hires. Can you assure us today of the 30 percent new hires in the Management Division? That's why you said it was such a large conference, your testimony.

Mr. FINK. That was one of the three reasons that I stated, is that 30 percent of the managers had less than 2 years experience.

Mr. MEADOWS. All right. And so we hired all these people, and so I've done the math. So you're saying one out of every two was a management hire? Because that's 800 new people in management if you take 30 percent of the people that attended the conference, so you're saying one out of every two hires was a management person?

Mr. FINK. No, sir. I apologize. If that's a misunderstanding, that's my fault. When I talk about 30 percent of the managers having less than 2 years experience, that would not include the numbers of new hires for that particular year. The new hires were primarily frontline customer-facing employees. We hired 1,516 customer-facing employees. They wouldn't have been the managers attending that conference.

Mr. MEADOWS. All right, I could see that I'm out of time. I appreciate the indulgence of the chair. I have one other question that hopefully I will get my colleagues to ask. Thank you. I yield back.

Mr. JORDAN. [Presiding.] The gentleman from Michigan, Mr. Bentivolio, is recognized.

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

Mr. George, after reading your two investigations into what's going on at the IRS, both with the excess spending on conferences that we're discussing today, and about the targeting of conservative groups, I can't help but sense that the IRS is out of touch with the average American citizen that they were hired to serve.

Mr. George, during your investigations, did you ever come across anyone in the IRS who felt disdain for the average American? Is there a culture that promotes a feeling of contempt for the American people as if they were somehow unworthy of the IRS work?

Mr. GEORGE. I cannot say that our reviews would lead to that exact conclusion, Congressman. I can say that there was, both in this instance, as well as in the instance of the 501(c)s, a lack of management, a lack of oversight by management of what was going on at the, quote/unquote, "rank and file level" at this stage. Now, we're continuing our review of the 501(c) matter, so I can't give you a definitive answer there.

But in this instance, as Mr. Fink acknowledged, there was a lack of sensitivity as to how the expenditures would be perceived by the American people, and I would then presume to add to the fact that managers seemed to have had a lack of concern about how the expenditures would be perceived.

Circumstances have changed. Again, with the GSA conference revelations, the subsequent actions taken by IRS officials, and then ultimately by the administration at the highest levels have also affected the behavior of government agencies at all levels on this issue.

Mr. BENTIVOLIO. Thank you.

Mr. Fink, there are tens of millions of Americans who would love to be paying taxes to be collected by the IRS and can't because they're out of work. Millions of young people, for example, many with college degrees and student loans to pay, still can't find jobs. Millions more underemployed and barely getting by. I try to ask this of most of the agencies that come before this committee: When the IRS was looking at conferences, or other ways that it spends our money, does it ever consider the current economic suffering being experienced by its fellow citizens? And I echo the sentiments of Mr. Gowdy.

Mr. FINK. At this particular time, part of this conference initiative, the one that we're speaking to, was about the individuals that were having difficulty with complying with their filing and paying requirements. That is why we brought our leadership together, so that they could convey the message out to the folks that do the face-to-face interaction that we have to understand the taxpayer's perspective, that we have to stand in the taxpayer's shoe so we can better understand what they are experiencing when they're interacting with the Internal Revenue Service. That is what it is.

What is particularly difficult this time with this coming to light, and I think it does tie to what you're talking about, you know, our agency is going through a period of where we're furloughing individuals for 5 days, and then you have this event come up. And while you can use excuses and say, well, this was 1 year money and it couldn't have been carried over, it is equally difficult to explain to our own workforce that, wait a second, we're getting 5 days off being furloughed and not being paid, and you spent this in 2010 on this conference.

Mr. BENTIVOLIO. I understand. In your circles, have you ever heard this saying: It's better to ask for forgiveness than it is permission. Ask for forgiveness than it is for permission, in your circles heard that before?

Mr. FINK. Yes, I have heard that before, yes, sir.

Mr. BENTIVOLIO. And as for your apology, Mr. Fink, I will trust you, but I will verify by watching the IRS very, very carefully.

Thank you, and I yield back my time.

Mr. MEADOWS. Will the gentleman yield?

Mr. JORDAN. Yes. The gentleman from North Carolina is recognized.

Mr. MEADOWS. Mr. George, can I pick up on one note? On page 5 of your report it talks about the transfer of \$3.2 million. Is that a transfer or was that a reprogram?

Mr. GEORGE. It was a transfer.

Mr. KUTZ. I think it was a reprogram within the enforcement appropriations.

Mr. MEADOWS. Can you check on whether it was a transfer or a reprogramming because it requires different statutory approval.

Mr. GEORGE. We will do so, but our understanding is, it was permissible, though. That is, we did take a look at that and they did not violate—

Mr. MEADOWS. So it was a reprogramming, because transfers require previous approval from the Appropriations Committee.

Mr. GEORGE. We will confirm that, sir.

Mr. MEADOWS. All right, thank you.

Yield back.

Mr. JORDAN. I thank the gentleman.

The gentleman from Oklahoma is recognized.

Mr. LANKFORD. Mr. Fink, we have heard an awful lot about the conference and what happened with it and how important it was to be able to get together, and I have no problem with conferences and people getting together. There's appropriate moments for that. But do you know the attendance? We've talked about this before. Do we know how many people actually attended the workshops? We understand that it was a full 8-hour day of workshops. Do we have a list somewhere of how many people were in the workshops and actually attended it?

Mr. FINK. No, sir, we do not.

Mr. LANKFORD. So there is no roll that's taken at those and there's no head counts of each workshop as they attended it, here is how many people were in the workshops?

Mr. FINK. That's correct, sir, there was no roll.

Mr. LANKFORD. The irony to me, as I go through the list of actual workshops—I'm sure you've gone back and taken a look at it—it's unbelievably ironic as you go through the list of the workshops that were held at this event. A few of those: "Making Telework Work." That—this particular one was not 50 minutes, but we've got all these conferences you're having in 2010, and all these people gather together for this very expensive conference, and they have a meeting about telecommuting and teleworking. Now, several years later now, our conference expense is much less because we're actually making that happen.

How about this one: "Political Savvy: How Not to Shoot Yourself in the Foot." Or "Unintentional Intolerance: Don't Be So Nice." This is the other one: "Why Doesn't Somebody Do Something?" With all that happened with the nonprofits, it's ironic to me that in the middle of this conference there is training actually about receiving other people and speaking out when you see a problem, and then later, apparently, no one spoke out and saw a problem with it.

“Talk Matters: Authentic Conversations.” Spent \$7,000 bringing someone in to talk about how to have authentic conversations with people. And an amazing one to me is the over \$10,000 to pay someone to talk about intolerance, when at the same exact moment the IRS is in another area isolating people that are Tea Party or conservative groups, but yet we’re paying \$11,000 to teach people not to be intolerant.

It’s completely ironic to me as we walk through what actually occurred at the conference. You know as well as I do, this has got to shift. It has to shift and it will. Changes have already been put in place and should be kept in place. But I would also concur that accountability is important in this process.

Thank you for your testimony, for the investigation into what’s happening. With that, I want to be able to yield back. We need to be able to move on to our next panel.

Mr. CUMMINGS. Does the gentleman yield?

Mr. LANKFORD. Yes, sir, I would yield to you.

Mr. JORDAN. The ranking member is recognized.

Mr. CUMMINGS. I just—I know that we’ll be dismissing this panel in a minute, but I just wanted—first of all, thank the gentleman for yielding.

Mr. FINK, I just wanted to say something to you before you leave. I know this has been difficult. I know it. Do you have a family? Are you married?

Mr. FINK. Yes, sir.

Mr. CUMMINGS. Do you have children?

Mr. FINK. Yes, sir.

Mr. CUMMINGS. You remind me so much of people in my own district. But I got to tell you something. I’m glad you came with the attitude that you came with. I think it was the gentleman who said that he appreciated it—I think maybe it was DesJarlais—that you came with an apology. We watched Ms. Lerner come and plead the Fifth. Shulman came, and basically rope-a-doped. And it was really rather insulting to watch what Mr. Shulman did. But you came, and you took some tough blows, and you were honest, and you laid it out as best you could.

And I just want you to know, I appreciate that. I appreciate you doing that. I appreciate—and I really mean this. The fact that you are remorseful means a lot to me, and I’m sure other members of the committee may feel the same way.

I’m just hoping that other people in your department will look, and I know that there are other people that did—made a lot of mistakes, too, but I’m hoping that there is a lesson in this, is that, you know, when things don’t look right that somebody says, wait a minute, hold on, maybe we should not be doing this. And I realize that a lot of times when a person stands up and does that, that they may be criticized, but when I looked at that list of things that I think the gentleman just mentioned, all that stuff, you know, half of those things talks about leadership. Leadership, speaking up, how to be a more effective leader, you know.

And I think what you’ve shown here, and I know it’s painful, but you’ve shown some leadership. And I do believe that this is a transformational moment—and I think that’s basically what you’ve said—for the IRS. I don’t think the IRS will ever be the same, but

it'll be a better organization, we hope, and we are certainly going to, you know, be looking at it through a microscope. Thank you very much.

Mr. FINK. Thank you.

Mr. JORDAN. I thank the gentleman.

Mr. Fink, let me thank you, too, for coming forward. Look, we've all made mistakes in life and your attitude has been appropriate and we appreciate that. And I appreciate the ranking member's comments.

Want to thank our other two witnesses. We're going to dismiss this panel and get ready for Mr. Werfel. So we'll be in recess for just a few minutes while the staff gets ready for the next panel.

[Recess.]

Chairman ISSA. The committee will come to order. We now welcome our second panel. Mr. Danny Werfel is the Acting Commissioner of the Internal Revenue Service and has been on the job for nearly 2 weeks. And with that, pursuant to the committee rules, we'd ask the witness please rise, raise his right hand.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Mr. WERFEL. I do.

Chairman ISSA. Please have a seat. Let the record reflect the witness answered in the affirmative. And the procedure that we use today is not the ordinary procedure. We would normally put members of the administration first, but I think it was mutually agreed that this procedure made a lot of sense. And with that, you're recognized for your opening statement.

**STATEMENT OF DANNY WERFEL, ACTING COMMISSIONER,
INTERNAL REVENUE SERVICE**

Mr. WERFEL. Thank you, Chairman Issa, Ranking Member Cummings, and members of the committee. Thank you very much for the opportunity to appear before you today to discuss the work we have already done and will continue to do to reduce travel and training expenses, and to ensure proper financial controls are in place over meetings and conference approval processes.

The 2010 manager meeting held by the Small Business/Self-Employed Division in Anaheim, which was described in a recent Inspector General's report, is an unfortunate vestige from a prior era. While there were legitimate reasons for holding the meeting, many of the expenses associated with it were inappropriate and should not have occurred. Taxpayers should take comfort in knowing that these kinds of expenses are no longer permitted, and such a conference would not take place today.

Since 2010, sweeping new spending restrictions have been put in place at the IRS, with the result that travel and training expenses have been dropped by more than 80 percent. We have limited employee travel and training to mission-critical projects. In fact, as the TIGTA report notes, costs related to large meetings dropped 87 percent between fiscal 2010 and 2012. Large-scale meetings like the one in Anaheim have not taken place in 2011, 2012, or 2013.

Under the Treasury Department's leadership, the IRS has taken bold steps to ensure that travel and conference spending is appro-

appropriate, limited, and undergoes a thorough review and approval process. This is an ongoing effort, and we continue to examine areas associated with training and travel costs.

As the Acting IRS Commissioner, I will do everything possible to ensure that tight spending protocols are in place at the agency to protect the use of taxpayer dollars, and I look forward to working with the committee on these efforts.

Our work in this area is one part of a much larger effort to chart a path forward in the IRS. This is obviously a very challenging time for the agency, especially in light of the inappropriate actions that were recently brought to light regarding the 501(c)(4) application process. I look forward to discussing that issue with this committee as well.

I intend to ensure that we are putting in place the appropriate measures to hold individuals accountable, address the processing of such applications, and review the broader internal controls and oversight mechanisms at the IRS.

More broadly, I am reviewing the full range of IRS operations, processes, and practices to focus on how we deliver our mission today and how we can make improvements in the future. In that way, we will develop a better understanding of organizational risks wherever they exist within IRS. For example, in line with the TIGTA report on conference expenditures, we must ensure that we have the right controls and oversight in place to prevent wasteful or inappropriate spending in this and other areas. Where we find management failures or breakdowns in internal controls, we will move to correct these problems quickly and in a robust manner.

Yesterday, in fact, I took action against two IRS employees after I learned of alleged inappropriate behavior. The IG forwarded information to us about a party during the 2010 conference where food was allegedly provided free of charge in violation of government ethics standards. Two IRS employees involved in the party have been placed on leave, and we have started the process to remove them pending further review.

I would like to be as forthcoming as I can with the committee with respect to these—with respect to these individuals, but because the process I just referred to has personnel implications, there is very little else that I can say publicly at this time about that process or the people involved.

On all of these efforts I have described above, we will report to the President, the Treasury Secretary, and the public by the end of the month and give a progress update. We have a great deal of work ahead of us to review and correct the serious problems that have occurred at the IRS, and to continue the important work of the agency on behalf of the taxpayers.

In the few days I have been at the IRS, it has already become clear to me that this agency is populated by thousands of dedicated public servants who are strongly committed to caring out the agency's mission. It's an honor for me to serve alongside them. And I am confident that together with Congress and other external stakeholders, we will address the current challenges and move forward with the indispensable work of this agency. Thank you, and I look forward to your questions.

Chairman ISSA. Thank you.

**WRITTEN TESTIMONY OF
DANIEL WERFEL
ACTING COMMISSIONER
INTERNAL REVENUE SERVICE
BEFORE THE
HOUSE OVERSIGHT AND GOVERNMENT REFORM COMMITTEE
ON IRS CONFERENCE SPENDING
JUNE 6, 2013**

Introduction

Chairman Issa, Ranking Member Cummings, and Members of the Committee, thank you for the opportunity to appear before you today to discuss the steps that the IRS has taken to implement comprehensive financial controls over meeting and conference approval processes and to dramatically reduce expenses related to travel and training, as well as the 2010 IRS Small Business/Self-Employed Division's Manager Meeting in Anaheim, California. In addition to this topic, as I testified earlier this week,¹ this is obviously a very challenging time for the IRS, in light of the recent inappropriate actions that were brought to light regarding the 501(c)(4) application review process. I look forward to discussing this issue with the Committee as well and ensuring that we are putting in place the appropriate measures to hold individuals accountable, address the processing of such applications, and review the broader internal controls and oversight mechanisms at the IRS.

The 2010 Small Business/Self-Employed Division conference, which was described in the recent report by the Treasury Inspector General for Tax Administration (TIGTA), is an unfortunate vestige from a prior era. While there were legitimate reasons for holding the meeting, many of the expenses associated with it were inappropriate and should not have been incurred. Taxpayers should take comfort in knowing that these kinds of expenses are no longer permitted and such a conference would not take place today. While it continues to be agency practice to periodically conduct training meetings on a national scale, the IRS has dramatically cut the number of meetings involving travel since 2010. Sweeping new spending restrictions have been put in place at the IRS, travel and training expenses have dropped more than 80 percent since 2010, and similar large-scale meetings did not take place in 2011, 2012 or 2013. Under the leadership of the Secretary and Deputy Secretary of the Treasury, the IRS has taken bold steps to ensure travel and conference spending is appropriate, limited, and undergoes a thorough review and approval process.

In addition to the focus of Treasury and IRS leadership on this issue, cutting down on excessive and inappropriate travel has been a personal priority for me. In my previous position as Federal Controller at the Office of Management and Budget (OMB), I led the development and issuance of multiple government-wide policy directives requiring

¹ For your reference, a copy of my June 3 testimony to the House Appropriations Subcommittee on Financial Services and General Government is attached.

Federal agencies to reduce their total amount of spending on administrative expenses, including travel and conferences, as well as putting in place strict policies for the review, approval, and public reporting of conference expenditures.

As the Acting IRS Commissioner, I will do everything possible to ensure that tight spending protocols are in place at the agency to protect the use of taxpayer dollars.

The 2010 IRS Small Business/Self-Employed Division's Manager Meeting

In August 2010, the IRS conducted a three-day leadership and educational meeting for approximately 2,600 managers of the Small Business/Self-Employed (SB/SE) division. This division, which comprises almost one third of all IRS employees, also houses the bulk of IRS compliance staff, and it accounts for the majority of the \$50 billion collected in annual IRS enforcement revenue each year. The meeting took place at a time when the IRS needed to ensure that managers had proper training to address significant new programs, major staff turnover and a substantial increase in security threats following the suicide attack on an IRS facility in Austin, Texas earlier in the year that resulted in the tragic death of a member of the SB/SE management team.

Although training remains a vital component of carrying out the mission of the Small Business/Self-Employed Division and other divisions of the IRS, we must make sure to undertake it in the most efficient and cost-effective manner. Unfortunately, that did not occur in this case.

There are several examples of expenditures from the 2010 conference that should not have occurred and would not occur today. One such example involves bringing in paid outside speakers from the private sector. The IRS has concluded that this does not represent an optimal use of taxpayer funds. Accordingly, since the time of the conference the IRS has put in place stringent standards for conferences and training, with the result that paid outside speakers are no longer being used.

Another example is the expense for, and the nature and content of, the videos produced for the conference. Since these videos were produced three years ago, the IRS has put in place tighter procedures to ensure that all of our videos across the agency embrace the core concepts of taxpayer service and employee training in a prudent, cost-effective manner. Videos similar to those shown at the Anaheim conference are not acceptable would not be made today.

IRS Cost-Cutting Actions Since 2010

The IRS takes seriously our obligation to be good stewards of government resources. As detailed below, the agency has instituted a number of procedures over the past three years that ensure sound financial decisions are being made in regard to spending. From Fiscal 2010 through the end of Fiscal 2013, the IRS will have experienced \$1 billion in budget cuts and efficiencies. Reducing travel and training costs is a critical part of our cost-savings efforts. We have limited employee travel and training to mission-critical projects. In fact, as the TIGTA report reflects, large meeting-related costs dropped 87 percent

between Fiscal 2010 and 2012. This is an ongoing effort, and we continue to examine areas associated with training and travel costs.

Training and Travel

Beginning in FY 2011, the IRS limited employee travel and training to mission-critical projects. Training travel alone has been reduced by \$83 million in the last two fiscal years. In addition, the IRS has expanded the use of alternate delivery methods for in-person meetings, training, conference and operational travel. A key component of these cost-saving efforts has been the use of video for training purposes, which is described in more detail below. It has helped us significantly reduce both training costs and training travel costs over the past two fiscal years. We are conducting a review of travel expenses and are considering the potential for further reductions.

Video Savings

The use of appropriate video training and video outreach through the IRS in-house studio has become increasingly important to the IRS to reach both taxpayers and employees. In the current budget environment, using video for training and out-reach purposes helps us save millions of dollars in travel costs and is an important part of successful IRS cost-efficiency efforts. IRS YouTube videos have been viewed more than 6 million times on important issues ranging from refund information to identity theft.

In addition, employee training through videos covers a wide set of key issues, ranging from educating compliance personnel about tax law changes to ensuring that employees respect taxpayer rights. The use of video also helps the IRS hold meetings in a cost-effective manner, through the use of virtual meetings. In one example, we used our in-house studio last year for a virtual town hall available to more than 4,000 IRS managers across the country.

Personnel

Labor is the IRS' largest operating expense, and we have been very focused on managing personnel costs. We have operated under an exception-only hiring freeze since December 2010. In FY 2012, we secured buyout authority that resulted in the elimination of 1,224 positions that did not involve direct service or enforcement interactions with taxpayers. By closely managing hiring and through the use of the buyouts, we reduced the total number of full-time, permanent IRS employees by almost 7,000 between the end of FY 2010 and FY 2012. So far this year, we have further reduced full-time permanent staffing through attrition by another 1,000 full-time employees – thus, we are down 8,000 permanent employees, or approximately 9 percent, since 2010.

Space Optimization

Last year, in an effort to promote more efficient use of the government's real estate assets and to generate savings, the IRS announced a sweeping office space and rent reduction initiative that over two years is projected to close 43 smaller IRS offices and consolidate space in many larger facilities. These measures will reduce rent costs by more than \$40

million and reduce total IRS office space by more than 1.3 million square feet by the end of FY 2014. These savings will be realized with little or no impact on taxpayer service or enforcement efforts.

Conclusion

The IRS remains committed to being as efficient as possible and spending taxpayer dollars wisely, particularly in the areas of training and travel, but in other areas as well. As we continue to address these areas, I look forward to briefing the committee on the concrete steps we will take to operate more efficiently and effectively.

We will continue to find savings wherever we can, while investing in strategic priorities that allow us to fulfill our dual mission of strong enforcement of the tax laws and excellent customer service. Moreover, we will continue to ensure that the IRS meets its responsibilities to fairly and impartially administer our nation's tax laws and has the right internal controls and management oversight in place to ensure accountability for doing so. Together, these efforts are essential in restoring the public trust and moving forward with a better, more effective IRS.

Mr. Chairman, Ranking Member Cummings, this concludes my testimony. I would be happy to answer your questions.

Attachment

**Testimony of Daniel Werfel to the House
Appropriations Subcommittee on Financial
Services and General Government, June 3, 2013**

**WRITTEN TESTIMONY OF
DANIEL WERFEL
ACTING COMMISSIONER
INTERNAL REVENUE SERVICE
BEFORE THE
HOUSE APPROPRIATIONS COMMITTEE
SUBCOMMITTEE ON FINANCIAL SERVICES AND
GENERAL GOVERNMENT
ON IRS OPERATIONS AND FUNDING
JUNE 3, 2013**

Introduction

Chairman Crenshaw, Ranking Member Serrano, and Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the work we are doing to chart a path forward for the IRS.

The mission of the IRS is twofold: to provide America's taxpayers with quality service by helping them understand and meet their tax responsibilities, and to enforce the law with integrity and fairness to all. In order for the IRS to operate effectively, we must have the trust of the American taxpayer. Unfortunately, that trust has been broken as a result of the unacceptable conduct uncovered in the recent report by the Treasury Inspector General for Tax Administration (TIGTA).

Along with the hardworking men and women of the IRS, I am committed to restoring that trust. This begins with moving quickly to take a number of steps: ensuring accountability for the problems that exist in the exempt organizations area, fixing those problems, and conducting a broader review of IRS operations. In taking these steps, we will be guided by several principles. First, we will ensure that we operate with the utmost fairness and impartiality in administering and enforcing the nation's tax laws. Second, we will be as open and transparent as possible with the American people. Third, we will operate in close consultation and cooperation with Congress. Adhering to these principles will ensure that we always act with the best interests of the taxpayers in mind.

The Road Ahead and Restoring Trust

In my first few days at the IRS, I have initiated a comprehensive review of the agency and have taken immediate actions to address the significant and alarming problems identified in the Inspector General's report regarding the 501(c)(4) application process. The TIGTA report makes clear that inappropriate and inequitable criteria were used to help inform determinations of eligibility for 501(c)(4) status, there were inexcusable delays in processing many of these applications, and some organizations were required to furnish unnecessary information in support of their applications. The behavior and actions described in the report are unacceptable, and must be addressed.

The TIGTA report describes a number of factors that led to breakdowns in procedure and oversight within the IRS' exempt organizations area. In particular, there was a series of management oversight failures and a lack of internal controls to ensure the appropriate treatment of applications. Moreover, the staff who handled the applications were not adequately trained, and thus were not well equipped to properly detect political activity and determine if the level of that activity was sufficient to deny an application.

Although additional investigations are underway that will shed further light on this matter, I have, at this time, reached an inescapable conclusion about the behavior described in the TIGTA report. The inappropriate use of certain political labels to determine how applications would be handled resulted in applications being inappropriately singled out for additional scrutiny. Moreover, there was a fundamental failure by IRS management to prevent this inconsistent treatment and ensure that it was halted once management became aware. These failures have undermined the public's trust in the IRS' ability to administer the tax laws in a fair and impartial manner.

I also want to make another important point. I have only been with the IRS a few days, but it is clear to me that IRS employees take great pride in the work they do as non-partisan civil servants dedicated to helping the nation. Like so many, the IRS community is shocked and appalled at the use of political labels inside one part of the organization, and considers it to be an affront to the mission of the IRS and their solemn duty as civil servants to fairly administer our tax laws. This incident has overshadowed the indispensable work the agency and its employees do for the nation every day.

The agency stands ready to confront the problems that occurred, hold accountable those who acted inappropriately, be open about what happened, and permanently fix these problems so that such missteps do not occur again. Moreover, we owe it to the American public to use this moment as an opportunity to take a hard look internally at the IRS and see where other deficiencies or risks may exist, and take action to address them. Our work has already begun in each of these respects, and we will report to the President, the Treasury Secretary and the public by the end of the month about our progress in these efforts.

One of my first actions has been to install new leadership to oversee the exempt organizations area. Last week, I appointed Ken Corbin as the acting director of Exempt Organizations, the unit within the IRS responsible for the review of 501(c)(4) applications, among many other important duties. Most recently, Mr. Corbin was the Deputy Director of Submission Processing for the IRS' Wage and Investment Division. He will report to Michael Julianelle, whom I have asked to serve as acting commissioner of the Tax Exempt and Government Entities Division. Mr. Julianelle has been the director of Enterprise Collection Strategy for the Small Business/Self Employed Division. Both Mr. Julianelle and Mr. Corbin have strong and diverse leadership backgrounds that will help us through this difficult period. I have initiated a search for permanent leadership for the Tax Exempt and Government Entities Division and for Exempt Organizations. I am also conducting a further review to determine what

additional personnel actions must be taken to hold individuals accountable and to ensure that we have the proper people in positions of trust.

Another immediate step that must be taken is to address the backlog of applications for 501(c)(4) status, focusing initially on those “potential political cases” referenced in the TIGTA report that are more than 120 days old. Some of these applications are 400 or 500 days old. That is unacceptable. I have directed Mr. Corbin and Mr. Julianelle to submit a plan to me by the end of this week that contains specific milestones for expeditiously resolving this group of cases. I have also made clear that these applications must be examined in a manner consistent with the TIGTA recommendations, so that the reviews, while thorough, are also fair and impartial.

I have further instructed Mr. Corbin and Mr. Julianelle to work expeditiously to ensure that all nine TIGTA recommendations are thoroughly implemented, and I have asked them to provide me with, at a minimum, weekly updates on their progress. I intend to update the public on the status of both the elimination of the existing backlog as referenced above and the implementation of the TIGTA recommendations by posting reports on IRS.gov, and I expect to make my first report by the end of this month.

But the work we are doing extends well beyond Exempt Organizations. I am also reviewing the broad spectrum of IRS operations, processes and practices to focus on how we deliver our mission today and how we can make improvements in the future. In that way, we will develop a better understanding of organizational risks wherever they exist within the IRS. Wherever we find management failures or breakdowns in internal controls, we will move to correct these problems quickly and in a robust manner. As we move forward with our work, we will be transparent about what we learn, our specific plans for improvement, the actions we take and the results achieved.

Of note, as part of our efforts to improve overall risk management at the IRS, I have appointed David Fisher as Senior Advisor and Chief Risk Officer. Mr. Fisher comes from the Government Accountability Office (GAO) where he was the Chief Administrative Officer and Chief Financial Officer. He brings a formidable background in financial management and internal controls, as well as experience leading complex government organizations.

IRS Operations and the Fiscal Year 2014 Budget Proposal

Although there is no question that the IRS is going through a very difficult time, it remains an indispensable organization, filled with dedicated and talented public servants, that is vital to the functioning of government and keeping our economy strong. In Fiscal Year 2012, the IRS collected more than \$2.5 trillion in revenue to fund the federal government, approximately 92 percent of all federal receipts. During FY 2012, we processed more than 147 million individual tax returns and issued more than 120 million refunds to taxpayers totaling \$333 billion.

Each year, the top priority of the IRS is to deliver a smooth filing season and to make the return filing experience problem-free for the American public. Although taxpayers frequently think of the IRS in terms of enforcement, a consistent point of contact with the IRS for the vast majority of Americans each year involves filing a return and receiving a refund, which last year averaged \$3,000 per household.

Aside from managing filing season, the IRS recently has made important progress on a number of strategic initiatives. An excellent example involves our work to improve offshore tax compliance. The IRS has worked to obtain information on owners of offshore accounts and conduct investigations and examinations to bring evaders into the system and to justice. The IRS also made available a special voluntary disclosure program (VDP) in 2009 and again in 2011, and reopened the program in 2012. To date, there have been approximately 38,000 voluntary disclosures from individuals, and the IRS has received back taxes and penalties totaling more than \$5.5 billion.

Elsewhere in the enforcement area, last week marked an important milestone as IRS Criminal Investigation participated in a multi-agency effort that led to the indictment of Liberty Reserve for allegedly running a \$6 billion money laundering scheme. This is believed to be the largest international money laundering prosecution in history and involved law enforcement actions in 17 countries.

The IRS has also made major strides in the fight against refund fraud and identity theft. So far this year the IRS has suspended or rejected more than 3.9 million questionable returns, and stopped more than 900,000 refunds determined to be fraudulent, worth more than \$5.6 billion. Assisting taxpayers victimized by identity theft is also a priority. In 2013 alone, the IRS has worked with identity theft victims to resolve and close more than 350,000 cases.

Along with enforcing the tax laws, the IRS also works to assist taxpayers in meeting their tax obligations. There is no better example of this than the support the IRS has provided in the wake of the recent tornado that devastated parts of Oklahoma. The IRS moved quickly to provide tax relief to tornado victims through actions such as extended return filing and payment deadlines. The IRS provided similar assistance after other recent disasters, including Hurricane Sandy and Hurricane Isaac.

It is important that we continue to make progress on these and other major priorities of the IRS even as we act to address the serious problems that have recently come to light regarding the specific issue of reviewing tax-exempt organizations. It also must be noted that the IRS' recent accomplishments and the critical work it continues to do are set against the backdrop of an extremely tough budget environment.

Since FY 2010 and including the current fiscal year, IRS appropriations have been cut by nearly \$1 billion (including more than \$600 million in reductions from sequestration and rescissions this year). This represents nearly an 8 percent cut in our annual budget while the total population of individual and business filers grew by more than 4 percent over the same time period. Labor is our largest operating expense, and we have been very

focused on managing personnel costs. Through a hiring freeze and limited use of buyout authority last fiscal year, the IRS has reduced the total number of full-time permanent employees by almost 8,000, or about 9%, since 2010. In addition, due to the impact of sequestration on the IRS budget, IRS employees are taking several furlough days before the end of the fiscal year, which will inhibit our overall productivity.

The President's FY 2014 Budget seeks to reverse this downward trend in funding, so that the IRS can continue performing its critical role while sustaining positive results. The president has requested \$12.9 billion in direct appropriations for the IRS, an increase of \$1 billion over the FY 2012 enacted level of \$11.8 billion. The direct appropriation, along with an estimated \$110.6 million from reimbursable programs and an additional estimated \$277.5 million from user fees, would bring the total operating level to approximately \$13.2 billion.

The funds requested for the IRS are vital to allowing the agency to carry out its mission, and continue making progress on important initiatives, including: improving service to taxpayers; increasing our efforts against refund fraud; making our compliance efforts more strategic; using new tools, data, and capabilities to conduct a balanced enforcement program, including improving our use of data received through third-party information reporting; and taking the next steps in building out our e-filing platforms and taxpayer account database. The IRS will also continue to administer tax-related provisions of major legislation, including the Foreign Account Tax Compliance Act (FATCA) and the Affordable Care Act.

It is important to note that the portion of the FY 2014 IRS budget request devoted to enforcement activities includes a \$412 million program integrity cap adjustment, which will reduce the deficit through above-base funding for high return on investment (ROI) tax enforcement and compliance programs. Of that total, \$407 million will fund new activities that will enhance tax administration and build capabilities to meet tomorrow's challenges. Once new hires are fully trained and have gained experience to reach their full potential in FY 2016, these resources are expected to raise \$1.6 billion in additional revenue annually. The average return on investment for these activities is more than \$6 to \$1. The return on investment is even greater when factoring in the deterrence value of these investments and other IRS enforcement programs, which is estimated to be at least three times the direct revenue impact. The remaining \$5 million will be transferred to the Alcohol and Tobacco Tax and Trade Bureau (TTB).

The President's budget proposal is vital to our efforts to keep tax administration moving forward effectively and efficiently. I also want to stress that it is a top priority for all of the IRS to continue its vital daily operations during this challenging period.

Conclusion

We have a great deal of work ahead of us to review and correct the serious problems that have occurred at the IRS and continue the important work of the agency on behalf of taxpayers. This work is being done every day by thousands of dedicated public servants

who remain committed to carrying out the agency's mission. It is an honor for me to serve alongside them. I am confident that, together with Congress and other external stakeholders, we will address the current challenges and move forward with a stronger and more effective IRS.

Mr. Chairman, Ranking Member Serrano, this concludes my testimony. I would be happy to answer your questions.

Chairman ISSA. And I'll recognize myself for a round of questioning.

Picking up sort of in the order in which you mentioned it, the two individuals that have been placed on administrative leave, in spite of administrative leave standards, they are available for transcribed interviews by this committee. Is that correct? You can give them things to do?

Mr. WERFEL. I'm aware of no prohibition that can be placed on this committee interviewing them or at least requesting interviews.

Chairman ISSA. Okay. It's the intention to request interviews of these persons of interest. And I would like you to also at some point today kind of run us through some of the troubles and perils you have in trying to take people out of a position and ultimately terminate them, demote them, deal with them, because I think that's one of the areas of interest.

The vast majority of Federal workers are great workers. They do a good job. They are protected by civil service and unions. But at the same time it is vexing, I think, to all of us sometimes when you get really bad actors, how long it can take even when you know ultimately they're going to be terminated. And we may be able to help you in shortening that process. Ultimately we want due process, but my understanding is it can take up to 3 years to terminate somebody unless they're criminally indicted. Is that right?

Mr. WERFEL. I think I've heard of situations in which it can take that long, but, you know, you can move the process quickly, but I think very often it's not quick enough and it's something that certainly we should explore.

Chairman ISSA. And we'd like to work with you and other principal Cabinet positions and sub-Cabinet positions on that.

When we had talked yesterday, I mentioned a question that I was very interested, and hopefully you've been able to ascertain this. In the earlier panel, we heard a lot about using event planners and how much the Anaheim conference cost. Were you able to get an estimate of, had your in-house people taken it fully, obviously the event planner would have been locked out of the process, but what they believe they could have saved the American taxpayers if it was done by the existing structure you had at the IRS?

Mr. WERFEL. Yes, and I appreciate the question. And as you just mentioned, you start with the \$133,000 that were spent on the event planners, and, you know, that's a lot of money, and that's important, to make sure that we're saving that. And I think as the Inspector General pointed out, by not having IRS people designated to do this, who would have no incentives to keep the costs up, only to keep the costs down, you're not pushing as hard in the negotiation. And I asked my CFO to talk with the team and make sure we had an understanding of what the opportunity that was lost, and we think it could be up to about 10 percent, you know. And 10 percent on a \$4 million conference, now you're at \$400,000. This is real money. And that's why I take the findings in the IG report very seriously, and this is a change that has to happen with respect to any activity going forward.

Chairman ISSA. Thank you. Additional question. We learned that approximately \$3.2 million of the money spent on these conferences was redirected from accounts that should have been used to hire

new employees. Is that still a possible practice, or has that been tightened up so that we could no longer think that we're asking for more examiners, we're asking to free up backlogs, and leftover money by not hiring these people gets spent on a conference and then the next year, of course, people are saying we need more money for inspectors.

Mr. WERFEL. It's a good question. It goes to how much flexibility there is in the IRS to spend the money that's been appropriated to them. It's my understanding that in this situation there was this \$137 million appropriation to hire a certain number of employees and that there were an ability to take \$18 million of that and spend it on training. And so you had this allowability to move certain amounts of money into training that would in theory supplement the enforcement actions.

You know, this conference report—I mean, this IG report—raises questions in terms of whether that training was done effectively or not, and it raises questions about are we spending our money effectively and could the money, the \$3 million of that \$18, been moved into enforcement activities and had a higher ROI for the taxpayer, return on investment for the taxpayer? In this case it's hard to argue against that.

But here it's something that we have to talk about. How are we evaluating the way IRS is moving its money into proper places to ensure that we're doing the best for the taxpayer? Obviously, the IG report raises important questions.

Chairman ISSA. And there's going to be a lot of questions. One that I think I'm particularly sensitive to, there's a law, a statute, 6103. Obviously, it's a unique situation in that we receive personal information all the time in discovery from government. But when it comes to the IRS, there's specific rules. And they are there for a good reason, and we want to respect that.

As you know, in one of your previous positions, this committee moved forward an agenda for something called the DATA Act. And we did so because we wanted government-wide to have structured data so that no matter where data was, any particular cell of information would be well defined so that if you wanted to extract it, but take the rest, you'd be able to do so.

Because you were in that previous job and you're now in this job, would this kind of improvement at the IRS and other government entities allow, when an organization like ours says, well, we want to know everything but we don't want 6103 information, Social Security numbers and the like, can you send it to us with that being redacted by computers rather than the laborious task of human beings putting blackouts? From your 2 weeks here and your many years elsewhere, what do you think about that?

Mr. WERFEL. I'll tell you one thing. We want to know, for example, on the better tracking of conference expenditures, the issue that we found, and in response to you proposing the DATA Act, working groups got together throughout the Federal financial management community to figure out, what does standardization mean and what would it open up in terms of knowing where our money is going?

And what happens is, is when we obligate money, we don't necessarily capture all the relevant information that we need in terms

of where is that money going? So, for example, we might obligate a set of money, but we don't know which recipient to attach it to or which vendor is getting that money. And so I look at the conference report and I realize there is not good tracking for where the dollars are going, fixes to our underlying accounting would address that. And you could have a much more comprehensive and systemic review of, here are the transactions, and here is how that money flowed out in terms of what did we spend on these types of activities across the entire spectrum.

You know, the issue here is, how do you get there? How do you fix our underlying financial management so that you have more transparency into where that money is going. And that is a dialogue that, obviously, I have been having with this committee for quite some time, and now that I'm in an agency and, you know, on the front lines of this type of financial management, I'm looking forward to working with you to give you insight, now complemented from my prior experience.

Chairman ISSA. Well, thank you. And I think that perhaps you could be the greatest asset for us working together with the administration broadly in finding ways to implement that sooner, something that rather oddly is extremely bipartisan here on the dais.

Mr. Cummings.

Mr. CUMMINGS. I agree with you, Mr. Chairman, that is definitely a bipartisan issue.

Mr. Werfel, there is an organization in Maryland whose philosophy I disagree with, but I will fight with everything I have got to protect them. And it's called the National Organization for Marriage. And as you know, they came into another hearing and they said that their tax information had been released to the public. They found it on a computer, you know, for the world.

I've got to tell you that that disturbed me greatly because people, American, the American people have to know that the information they are giving to the IRS, whether it's an application, whether it's, you know, a tax return, or whatever, is kept private.

And, you know, I keep talking about truth and trust. The idea that the IRS has an impact on every single family in America, and the idea that people are feeling more and more vulnerable with regard to their information being distributed all over the Internet, I'm just wondering, I mean—I mean, how you feel about that, and do you have a plan in place?

And I'm not trying to get into any investigations, because that's the IG, I guess, but I'm just wondering where are we on that? And I'm sure that must have disturbed you. You did hear about it, right?

Mr. WERFEL. I did. Let me start by saying, you know, this goes right to your question, that I can't speak to the issue of a particular taxpayer because—

Mr. CUMMINGS. Right I understand. Okay, just talk generally.

Mr. WERFEL. I would like to broaden—

Mr. CUMMINGS. Yeah, but I wanted to give—the reason why I mentioned the name of it, because it's a Maryland organization. But more important than that, it's not just the organization, Mr. Werfel, it's the idea that information that taxpayers consider to be confidential then appears on the Internet. And that goes, I'm talk-

ing, I'm telling you that goes to trust, too, all right. So you can talk generally.

Mr. WERFEL. I will. And I would say, as the chairman mentioned, I have been in this seat for 2 weeks and—

Mr. CUMMINGS. I understand.

Mr. WERFEL. No, and that's been enough time to make some very critical conclusions. And one of the conclusions that I have reached is there are at least three, but the three that jump out the most to me, the three most important risks that I have learned so far in 2 weeks that we need to manage and keep at a very low risk level are the risk that the taxpayers would feel like their information is not well protected; the risk of IRS acting with partiality and not being impartial; and the risk that we're not keeping our costs down. And those jump out at you. And it's critical that—and we're having issues in each of those areas demonstrated by the recent IG reports.

And part of our improvement plan, part of our efforts, as you said in your opening remark, to restore the trust are to put in place stronger practices than we have today to make sure that we're hitting it out of the park on those three issues. We have to make sure that information is protected under 6103. Citizens have to feel like when they're submitting personal information about their finances to the IRS that is protected. We have to make sure, and this is so critical, that the IRS is acting impartially. And third, and from the first panel I think it was clear the concerns that you raised, that I agree with, we have to make sure that we're spending the taxpayer dollars wisely.

And so for any constituent that you have, I think the key is, how is the IRS doing on those three things? And what I'm hoping to do in my tenure is to put in place new procedures, new disciplines, new checks and balances, to make sure that in each of those three areas we're not only performing better, but there's a transparency to what's going on in each of those areas and there's a partnership, a broader partnership outside of IRS that involves this committee and other committees, that involves other stakeholders, whether it's GAO, or local universities, or think tanks who can help us think through these issues. And it can't just be the IRS operating alone at the IRS. We have to make these improvements collectively.

Mr. CUMMINGS. Now, Mr. Werfel, I, first of all, I appreciate everything that you have said. I also think I appreciate you reaching out to the chairman and I within hours after you were appointed saying that you wanted to work with us. And I really do appreciate that. But I'm wondering if you realize the moment that you find yourself in. I'm not finished. This is a very critical moment in the history of the IRS, and you've been called, I'm sure you're an ordinary man, but you've been called to an extraordinary mission. And it's—I'm not finished—an extraordinary mission.

You have the duty now to restore trust for millions upon millions, hundreds of millions of Americans who work hard, blood, sweat, and tears, efforts to raise their families, and they just want a fair shake. They don't mind paying taxes as long as the things that you just talked about are done. And I'm just wondering if you realize the significant moment that you're in and how we are de-

pending on you. And we know you can't do it by yourself. That's why all of us have to work with you to make this happen. Do you really comprehend that, sir?

Mr. WERFEL. I do. I understand the enormity of the moment and the enormity of the challenge. The way that I look at it, in order to make sure that I'm keeping my eye on the ball, because you can get lost in how big this challenge is, and I don't want to do that. I want to get to work and roll up my sleeves. You know, I'm a civil servant. I have been a civil servant in government for 16 years and I have a deep appreciation for the work that the Federal Government does in almost every realm. I'm a champion for the work that the civil servants do.

And when I was approached about this, and I realized there is a group of civil servants at IRS that are struggling, that we have an agency in crisis, and I realized also, and I think one of the reasons why I was approached is because I have had in my career a knack for solving tough government problems, that I was the right person to go at this time, given my understanding of how the government works, and given my passion for improving government, to be there.

And so I arrived and I said, what are the right things we need to do? And there are some very tough decisions, very tough. Almost every day I'm confronted with a set of questions and challenges that would—you know, I've joked a few times, we should take some of these to the Harvard Kennedy School of Public Policy and show how tough this is, and they would probably say, you know, this is an unrealistic problem. There is almost too much public policy tension going on.

Mr. WERFEL. I get questions like that five times a day. And I'm realizing, again, that each of these questions are solvable. The issue is making sure that there is cooperation and understanding, patience and input from a diverse set of stakeholders in solving them.

So the answer to your question is, I understand the enormity of the moment, but then I take myself down to the level of, how do you fix a problem in the Federal Government? What can I bring to the table? Who can I bring around the table to help me? And then I can get down to the business of what needs to be done.

Mr. CUMMINGS. We're going to work with you and give you all the support that we possibly can. And thank you very much.

Mr. JORDAN. [presiding.] Mr. Werfel, I appreciate your attitude and the fact that you grasp the gravity of the situation. You just said in your last comments that this is an agency in crisis. You came from OMB. How many folks worked for you at Office of Management and Budget?

Mr. WERFEL. I held a variety of different positions, but the highest ranking position I held I would say about roughly 115, 120.

Mr. JORDAN. And you're going to an agency now that has about 90,000 employees and slated to add several thousand more when it comes to the enforcement of the Affordable Care Act. Do you think maybe this is just an agency that's way too big, got way too much responsibility? And now that we're adding something as complex, something that Senator Baucus has called a train wreck, now that we're adding that responsibility to it, I think you're right when

you say this is an agency in crisis, and it's headed for more in light of what's coming.

Mr. WERFEL. I think a couple of reactions, if I could. One, I agree with the premise that we need to evaluate the structure of the IRS going forward—its size, its complexity. That's part of this movement forward in terms of—

Mr. JORDAN. Let me interrupt, because I've got 5 and these guys have to catch planes, and I apologize. And I do appreciate the attitude that you have displayed and what I've heard from your public service. But in order to deal with an agency in crisis, in order to start fresh and reform that, you have to the bottom of the current problems. You have to hold, you said in your opening statement, hold people accountable for what's going on.

So let me ask you this. Have you talked to Lois Lerner in your time as—in your short time as head of the IRS?

Mr. WERFEL. Let me answer that question two ways. I have to be careful about revealing any elements of a personnel issue.

Mr. JORDAN. I didn't say that. I just said, have you talked to her?

Mr. WERFEL. But I have not talked to Lois Lerner.

Mr. JORDAN. At all?

Mr. WERFEL. No, I have not talked to Ms. Lerner.

Mr. JORDAN. And is she still an employee of the IRS?

Mr. WERFEL. She—again, there's some Privacy Act issues. Let me just say that the position that she held is now being held by another employee.

Mr. JORDAN. Is she still being paid by the taxpayers?

Mr. WERFEL. Again, if I could, there's Privacy Act issues. But let me just—and this has been brought up—the personnel process for how we deal with—

Mr. JORDAN. No, I'm just asking if you've had any communication as the head of the IRS, if you've had any communication with Lois Lerner, who was in front of our committee 2 weeks ago and refused to answer questions.

Mr. WERFEL. And if I could, if I can answer, because I think I understand your question, and the answer to your question is, my review of what is going on in the IRS involves working very closely with the IG and the Justice Department. And I have to be very careful—

Mr. JORDAN. Got it.

Mr. WERFEL. —about interfering with their work.

Mr. JORDAN. Got it.

Mr. WERFEL. And so we have an individual that you named that's a very important person to get information from. She is central to the—

Mr. JORDAN. So you think she has important information to offer this committee.

Mr. WERFEL. Absolutely.

Mr. JORDAN. And offer the United States Congress. And more importantly, offer to the American people.

Mr. WERFEL. Absolutely. And I know the Justice Department and the Inspector General are working to get that information. And importantly—

Mr. JORDAN. So how did she get to this paid leave status if you've never talked to her and you're the acting head of the IRS?

Mr. WERFEL. I can explain that. So we have an audit report that the IG has completed, and I am looking at that audit report, and that audit report has conclusions of management failures that are going on—that went on in the IRS. And I, my first approach on accountability, because one of the things I'm charged to do is to make sure we're holding people accountable, and I have a completed audit report that has conclusions of mismanagement. And the first thing I'm doing is going through those findings and determine where were those management failures so critical that that individual no longer—can no longer serve a position of public trust in the IRS.

Mr. JORDAN. Okay.

Mr. WERFEL. So from the audit report alone I can make decisions.

Mr. JORDAN. Without communicating with her.

Mr. WERFEL. There is enough evidence in the record about the mismanagement, yes.

Mr. JORDAN. Have you, subsequent to her going on paid leave, subsequent to her coming in front of the committee and refusing to answer questions, have—do you think it would be appropriate for you to talk to her only in this context: to encourage her to come in front of the committee to get to the truth so we can hold people accountable and we can restore the trust and meet those qualifications you outlined in your opening statement, you outlined in your answer to Mr. Cummings.

Mr. WERFEL. I will.

Mr. JORDAN. You will go—

Mr. WERFEL. I will do two things. I will get to the bottom of this—

Mr. JORDAN. No, I'm asking will you encourage her to come in front of the committee and answer questions? You told us you want to hold people accountable, you want to get to the truth, you want to restore trust. The central figure in this drama thus far is Lois Lerner, and she has refused to answer questions. I'm asking, will you encourage her to reevaluate her decision not to answer questions and come in front of this committee?

Mr. WERFEL. And I'm going to answer your question. There's a complicated element to your question. But if I could—if you can indulge me. When I arrived at the IRS—

Mr. JORDAN. I think it's not complicated. I think it's real simple. I don't see how encouraging—you could make a public statement, you don't have to talk to her—you could say, I encourage Lois Lerner to come in front of the committee so we can, according to what you told Mr. Graves the other day, we can hold the proper people accountable, we can restore public trust in the Internal Revenue Service, we understand the gravity of the situation we are in, I would encourage her to come forward and give the committee the information and answer the questions we'd like to ask her. Will you do that?

Mr. WERFEL. Again, first of all, whether she comes and testifies is a matter for her and her attorney.

Mr. JORDAN. I understand that. She's exercising her Fifth—I understand that. I'm asking will you encourage her? Mr. Cummings just outlined how the enormity of the situation you find yourselves

in—youself in—you said, I get the gravity of the situation I find myself in, a 90,000-employee IRS, slated to hire a bunch more people to enforce the Affordable Care Act, I get how serious this is. The central figure thus far in the investigation is Lois Lerner. She's refused to answer questions in front of this committee. I'm asking you as the guy who's charged with fixing this agency, which is out of control, an agency in crisis, to use your words, will you encourage Lois Lerner make a statement? You're running this agency. Make a statement. I encourage Lois Lerner to come in front of the Oversight Committee and answer the questions of the Members of the United States Congress.

Mr. WERFEL. Two responses to that. Yes, as a general matter I encourage anyone who has information—

Mr. JORDAN. I didn't ask as a general matter.

Mr. WERFEL. Including Lois. Including Ms. Lerner. I encourage anyone, including Ms. Lerner, to come in front of this committee, to cooperate with the Justice Department, to cooperate with the Inspector General. So I apologize if I misunderstood your question.

Where I was going—and maybe I got confused by your question—was I have to work very closely and follow certain rules that have been laid out for me by the Justice Department and the Inspector General about me talking to individuals in any way that might interfere with their investigation, and that's what I was. I just didn't want to overcommit.

Mr. JORDAN. No, and I'm over time and I want to—I just want to be clear. So you're going to encourage Lois Lerner, you're saying today in front of this committee you encourage Lois Lerner to come in front of this committee and answer questions.

Mr. WERFEL. Absolutely.

Mr. CUMMINGS. And just with the chair's indulgence. And anybody else.

Mr. WERFEL. Yes, absolutely.

Mr. CUMMINGS. All right.

Mr. WERFEL. Anybody who has information about this situation needs to provide that information. It's too important.

Mr. JORDAN. Got it. My time is—I apologize. The gentlelady from New York is recognized.

Mrs. MALONEY. Welcome. Clearly the way that some groups seem to have been targeted is impermissible and absolutely outrageous. But what type of things should send up warning signs?

I'd like to ask you about a series of activities and whether or not you think Congress should clarify what is meant by them and whether or not they would be considered partisan political activity. I only have a short number of time, so if you could just answer yes, no, or don't know.

For example, is advocating for a particular bill to be defeated considered partisan political activity? Yes, no, or you don't know.

Mr. WERFEL. I'm not sure if I can apply the rule of law to that set of facts. The key—my understanding of political activity orients around trying to get an individual elected to office for the purpose of 501(c)(4) review.

Mrs. MALONEY. That's what we're talking about. Okay, how about advocating a candidate to be elected or defeated?

Mr. WERFEL. Yes. That is square.

Mrs. MALONEY. And how about advocating to overturn a Supreme Court decision?

Mr. WERFEL. Again, there's a complexity that I can't speak to. My understanding of primary political—

Mrs. MALONEY. Well, how about advocating for birth control or trying to defeat access to birth control, should that activity enjoy tax-free status with funds raised from anonymous donors?

Mr. WERFEL. Again, I don't want to speak as an expert on these issues. I think right now my key understanding of how you measure political activity is how you advance a candidate—if you're advancing a candidate for office or otherwise.

Mrs. MALONEY. Well, the report that the—but I would say all of those decisions are rather political, very political, in my opinion.

Mr. WERFEL. Let me offer—

Mrs. MALONEY. But maybe we need to clarify them. And the IG's report on this issue explained that a lack of clear guidance on how groups are determined to be eligible for tax-exempt status was one factor that contributed to the decision made by the IRS personnel.

But one key reason this problem exists is because of the difference between the original statute Congress passed and the regulation the Treasury Department subsequently issued. And the original statute passed by Congress provides that organizations may qualify under 501(4)(c) only if they engage exclusively in social welfare activities. And that seems to be very clear. If you're exclusively in social welfare, you have the tax-exempt status.

But in 1959, a regulation was issued providing that entities could qualify under 501(c)(4) as long as they engaged primarily in social welfare activities. So would you—so requiring organizations to be primarily engaged in social welfare activities is very different, I'd say significantly different, from requiring them to exclusively engage in social welfare. Wouldn't you agree?

Mr. WERFEL. I would.

Mrs. MALONEY. Okay. And I know the regulation now is more than 50 years old, but do you know why Treasury changed it from exclusive to primary?

Mr. WERFEL. I do not.

Mrs. MALONEY. You do not. And is there any reason why you think we should not use the exclusive test today.

Mr. WERFEL. I think it's something that I don't—I want to work with the Treasury Department and committees in Congress to explore. Right now I have a regulation that I have to abide by that uses the word "primary," and so that's what I'm working with. But one of the Inspector General recommendations—

Mrs. MALONEY. I know that he recommended, and also at the last hearing about the IRS we asked Neal Wolin who testified, he was the Deputy Secretary of Treasury, if he would consider the effort by the IRS and Treasury to issue a new regulation that returns to the exclusive test, and he said he would. And my question to you is, would you work with Mr. Wolin and others on the possibility of clarifying this and going back to the exclusive test?

Mr. WERFEL. I've already initiated discussions with Treasury Tax Policy around updating the regulation, but I don't want to presuppose what the interpretation of exclusivity is. I think that has

to be a very broad process of seeking comment and input to make sure that we get the right definition.

Mrs. MALONEY. Would you welcome setting up a meeting with members in a bipartisan way of this committee and with Treasury on this specific issue?

Mr. WERFEL. Yes.

Mrs. MALONEY. I think that's very important because this is the Government Oversight and Reform Committee, and if we forget the reform part of it then we are likely to have the same situation in the future. And I think the fact that the series of questions that I put before you, which, in my opinion, are clearly political, but in your opinion are not, need to be clarified and need to be well understood by the employees at the IRS and the general public.

My time has expired. Thank you.

Mr. JORDAN. The gentleman from Florida is recognized for his 5 minutes.

Mr. MICA. Let me first yield a minute to our current chair, Mr. Jordan.

Mr. JORDAN. I thank the gentleman.

Mr. Werfel, will you also commit to giving the committee every piece of information that you possibly can when you get the chance to review it and get it to the committee?

Mr. WERFEL. Yes, subject to 6103.

Mr. JORDAN. I understand 6103, I understand that. But right now the committee staff is interviewing an employee of the IRS, Mr. John Shafer. His attorney sent us a letter, to the committee staff, on Monday, June 3rd, and it says, "In order to allow for a more complete interview of Mr. Shafer we sought permission from the IRS to provide the committee with limited documents in Mr. Shafer's possession. The request was also denied." I'll make sure that minority staff gets to see this—or minority members get to see this as well.

We then have an email from the following day from the IRS to committee staff, Ms. Kirsten Wielobob, where she says, "Unfortunately, we are unable to produce the requested documents in advance of Mr. Shafer's scheduled transcribed interview before the committee."

Here's an employee of yours being interviewed in front of the committee who wants to present documents to get to the truth so we can hold people accountable and do exactly what you described in your statement, and we want to know why you won't give us the documents.

Mr. WERFEL. It's not a question of won't give you the documents. It's a question of just having enough time to pull the documents—

Mr. JORDAN. My understanding is, it's a handful, it's just a handful of emails.

Mr. WERFEL. I don't know. I mean, you said the interview's ongoing, so I don't have specific information. But as a general matter, when we get a document request from Congress, we have to pull the entire data file down. So you named an individual, we would go and take their entire email down, and then we have to review it for 6103. And some of these individuals have been at IRS for years. So you're talking about thousands and thousands of pages.

So the notion is not that we're withholding the documents, the notion is we're acting very quickly and effectively to try to get that information as quickly as possible.

Mr. JORDAN. And I know I'm over my time and I got to get back. But he has—he has the documents. He wants to give them to you and say review them so we can—I mean it's a handful in his possession, it's not his whole computer, it's not a whole file, it's a handful of documents.

Mr. WERFEL. If he's willing to hand me documents right now or expeditiously—

Mr. JORDAN. No, he was willing to do it on Monday so we could have it for today's hearing and you guys didn't do it.

Mr. WERFEL. Well, I have to look into that. I don't have any facts about that.

Mr. JORDAN. I thank the gentleman for his time and I yield back.

Mr. MICA. Mr. Werfel, at today's hearing we have been trying to focus on conferences gone wild with IRS. I guess you have put some people on suspension. And that's with pay?

Mr. WERFEL. It is because of the process, but also we're making—doing the right procedures to move towards termination.

Mr. MICA. The other thing, too, is I heard Mr. Fink, I guess he got a promotion after that and a bonus. And these—several of these folks got bonuses, too. Is there any way to recoup some of the rewards for bad behavior?

Mr. WERFEL. I will look into that. I don't know the personnel rules in terms of whether we can recoup bonuses.

Mr. MICA. Well, we can change the law. And the other thing, too, the Inspector General has said that no laws were broken. And if no laws are broken, maybe we need to put some laws in place. Maybe you could recommend back to us.

Mr. MICA. And I heard Mr. Cummings, too, and I have seen the same thing, folks getting up, working their tail off in this country, trying to feed their families, make ends meet, pay their taxes. And then, what is it, the plastic squirting fish, \$64,000. You were at OMB, weren't you, just before you came here?

Mr. WERFEL. I was, yes.

Mr. MICA. Are they sleeping at OMB?

Mr. WERFEL. No. In fact—

Mr. MICA. I mean, that's Office of Budget and Management. I know you oversee the budget, but somebody's got to be looking at the management and operations. We do that as a committee. We're getting our information, is a bit old here. But I really wonder what's going on in the Office of Budget and Management. And you were there, now you're in IRS. So somewhere we've got to make the changes.

The only thing that turned this whole spigot off was the hearing that we did. And then, as I said, thank God for the guy in the hot tub. All the investigation I did preliminarily did nothing like inflaming the public that the guy in the hot tub did. And I said—you know, I showed today the \$20,000 drumsticks, \$64,000 for trinket for IRS employees, \$135,000.

Now you can bring under control the cost of the conferences, right?

Mr. WERFEL. Yes. Even—

Mr. MICA. You've done that.

Mr. WERFEL. They're brought significantly under control and we could go deeper.

Mr. MICA. That's only because of the scandal and the investigation that we went after, period. Please don't tell me—nobody did a darn thing until Mr. Cummings and some of us. Come on.

Mr. WERFEL. Well, if I could, I'm not disputing your point.

Mr. MICA. Well, I don't have—I don't have much—too much time. But have you been to the White House yet as—

Mr. WERFEL. No.

Mr. MICA. Okay. How many times—I mean, Mr. Shulman went, was it 160 times?

Mr. WERFEL. I've heard that number. I don't have any evidence. But since I started at the IRS I have not been to the White House at all.

Mr. MICA. Okay. And finally, again, within your purview I think you have the ability to bring some of these costs under control, and also holding people accountable. Granted, you were not there, you were at OMB in another watchdog position, and somehow this slipped by OMB and everybody else. But now you have the ability to hold people accountable.

I think folks want people held accountable who have misused their position, cost the taxpayer money. We look forward to working with you.

The first thing I want out of you as IRS Commissioner is to tell us what we need to do to change the law, and we'll look forward to your recommendation, so that people can't be paid who have done misdeeds with the public trust.

Mr. MICA. Yield back.

Mr. JORDAN. I thank the gentleman.

The gentleman from Virginia is recognized.

Mr. CONNOLLY. Thank you, Mr. Chairman.

And welcome, Mr. Werfel, welcome back to the Oversight and Government Reform Committee. While there were some stories when you were appointed about who is Dan Werfel, those of us here in the Oversight and Government Reform Committee knew the answer because you are a frequent flyer here at OGR and a very valued witness. And we thank you for your past service and certainly want to be as supportive as we can be in your new assignment, which as the ranking member indicated, is pretty awesome.

Just to clarify one thing, you were being very careful in your response to Mr. Jordan on Ms. Lerner. I think there are two aspects of that to be careful about. One is there is precedent where predecessors, senior officials in IRS, made certain statements based on an IG report that then were considered by a judge to be prejudicial to an IRS employee, thus yielding a very undesirable outcome, which was the full reinstatement of an employee that people were trying to actually have dismissed, with back pay. And I assume you're being careful because obviously you want to avoid that pitfall.

Mr. WERFEL. Yeah. If I could, Congressman Connolly, there's a couple of reasons why I want to be careful. And also I want to be as transparent as possible in terms of how the process is.

You know, when I arrived at IRS, I wanted to make sure people understood what I'm seeing, the path I'm taking, and a couple of things. One, the process to hold people accountable, to discipline people is long and complicated. And as you point out, you don't want to move too quickly without being fair and thorough. Fairness is critical, thoroughness is critical, because of what you just said. If I move someone forward for dismissal and I don't have a strong record, then I'm going to lose my case to try to dismiss them and they're going to get reinstated with back pay.

Mr. CONNOLLY. Right.

Mr. WERFEL. And I know people are going to lose patience, but I'm going to be as fair and thorough as possible.

Mr. CONNOLLY. That's correct. Sometimes up here we can afford the luxury of sort of cutting corners in due process. You cannot as a manager.

Mr. WERFEL. Yeah. And if I could clarify one other thing, the other important point is that in my review, and particularly in discussing or asking questions of the individuals that have knowledge about this situation, the Inspector General and the Justice Department have said to me, we are asking these questions, and if you come in and ask these questions at the same time as us, it could be disruptive to our very critical investigation.

Mr. CONNOLLY. Exactly.

Mr. WERFEL. So what they've said to me is, let's make sure we're all on the same page with what questions need to be asked, we are professional investigators, and we'll ask the questions, we're going to keep you informed, Acting Commissioner, in real time. And that's going to enable me to make sure there is a clean and fair and thorough investigation and get this committee the information it needs as quickly as possible.

Mr. CONNOLLY. And one other point, Mr. Werfel. Again in your response to Mr. Jordan, who was exhorting you to encourage this particular individual to come back to the committee and testify, and your answer was a broad answer, which didn't fully satisfy Mr. Jordan, which was, I'm going to encourage everybody to—

Mr. WERFEL. Absolutely.

Mr. CONNOLLY. But I want to be clear real clear. You can't be put in the position nor should you be put in the position of interfering with the exercise of the Fifth Amendment rights of anybody, including an employee, no matter what his or her status is at the IRS. Is that correct?

Mr. WERFEL. That's absolutely correct.

Mr. CONNOLLY. All right. Because I want to be real clear about that. A lot of people holding up the Constitution saying they believe in the Constitution, well, the Fifth Amendment, the last time I checked, is one piece of that Constitution. And it is a constitutional right, whether we like its exercise or not, and this individual has a right to exercise her Fifth Amendment right without interference by us or by you.

Mr. WERFEL. That is correct.

Mr. JORDAN. Would the gentleman yield briefly?

Mr. CONNOLLY. If the chairman will indulge me, because I—

Mr. JORDAN. That's why I was very careful to use the word "encourage." He can't compel her. I understand that.

Mr. CONNOLLY. And, Mr. Chairman, I think I understood you meant that. Thank you for clarifying.

All right. Mr. Werfel, one final question. You've been given a 30-day review assignment by the President of the United States. Can you just describe what's going to be entailed in that review and what you hope will come out of that review in trying to address management practices, morale, and everything else in this huge, farflung enterprise known as the IRS?

Mr. WERFEL. Yes, I can. There's three parts to what the 30-day review entails. First part is accountability, and my 30-day progress report to the President and to the Treasury Secretary will detail the framework that we're using to make sure that we're getting to the bottom of it and holding people accountable. It'll have concrete examples, that I think we're all now aware of, of where I am actively taking personnel steps to hold people accountable. And then it will have a forward-looking view to make sure there's transparency in how this process is going to play out in the coming weeks.

The second part of the report deals with fixing the problem with 501(c)(4) reviews. And there's a couple of pieces there. One, we've got to implement the nine IG recommendations fully and thoroughly. Second, we've got to get the backlog down. We still have an existing backlog of 501(c)(4) applications. It's an unacceptable backlog, and as has been widely reported, hundreds and hundreds of days that these taxpayers have been waiting for their answer, unacceptable. We have to move swiftly to knock that backlog down.

And the third part of fixing the problem is, what is the right process going forward? The process that we've been using previously has not worked effectively. So in that report will be a framework for a new process.

And then, very quickly, the third part is a broader review of IRS which includes some of these other things, cost cutting and 6103 protection and other things that we want to make sure we're looking at across the IRS to show the American people that we're serious about transformative change to improve this agency.

Mr. CONNOLLY. Thank you.

And, Mr. Chairman, one other thing just consistent with our committee. I know Mr. Werfel is aware of it. But we held hearings very late, I think it was the last hearing our former colleague Todd Platts, chaired on identity theft and the growing problem of identity theft with the IRS. And I would hope that that gets sufficient review as well. Thank you.

Mr. JORDAN. Gentleman from Utah.

Mr. CHAFFETZ. Thanks, Mr. Chairman.

Thank you, Mr. Werfel. You've got your hands full and we wish you well. We need you to be successful.

Are you familiar with the internal review that is happening at the IRS on this subject?

Mr. WERFEL. Yes. I'm essentially establishing and running the internal review with my leadership team.

Mr. CHAFFETZ. Are you also aware of the internal review that Mr. Miller had initiated? This was done March through May of 2012.

Mr. WERFEL. I'm familiar with it and I'm at this point in time working with the team to make sure that I understand all the various—

Mr. CHAFFETZ. Have you seen it?

Mr. WERFEL. It's a good question. I have talked to employees that were involved in that review.

Mr. CHAFFETZ. Who did you speak with?

Mr. WERFEL. The primary person that I spoke with was Nancy Marks, who led that review.

Mr. CHAFFETZ. What about Holly Paz?

Mr. WERFEL. I have not spoken to Ms. Paz yet.

Mr. CHAFFETZ. You have not seen this document?

Mr. WERFEL. That's the thing. I'm not aware of a specific document that says—

Mr. CHAFFETZ. So they did an internal review, but you haven't been given a document?

Mr. WERFEL. That is correct.

Mr. CHAFFETZ. Is there a timeline for this review? We have been requesting since May to get a copy of the timeline. We've been assured by the IRS we'd get it. We still don't have it here today. We wanted to have it before this hearing. When will you provide us that timeline?

Mr. WERFEL. I was unaware of that specific request. Let me check and I will get back to you with a specific timeframe.

Mr. CHAFFETZ. What did you learn about this document—this review? Are you telling me that there's a review and there's no document?

Mr. WERFEL. At this point. And this is frustrating. Look I'm arriving at the IRS and finding a lot of—

Mr. CHAFFETZ. How convenient that there's no documentation of the internal review of this very—are you telling me there's no email?

Mr. WERFEL. I didn't say that. I thought what you were referring to is there kind of a former Acting Commissioner Miller asked for a review and here is the report to Mr. Miller. If there is a report I don't have it, and once I do it have it you will have it. That's the—that's my approach. But—

Mr. CHAFFETZ. And I appreciate that. Would that include the background information or the other information? If there is no formal—

Mr. WERFEL. As long as there's no 6013 issues, yes.

Mr. CHAFFETZ. And when would we—what's reasonable for me to expect that you would deliver that to the committee?

Mr. WERFEL. I don't want to overpromise. What I will promise—

Mr. CHAFFETZ. But what's reasonable?

Mr. WERFEL. I will get back to you. It depends—

Mr. CHAFFETZ. When would you get back to me by?

Mr. WERFEL. I will get back to you by the end of the day tomorrow with a reasonable timeframe for that request.

Mr. CHAFFETZ. I think that's fair. I appreciate it. This is something that we obviously want to look at in this internal review.

Had you met Mr. Shulman prior to your taking on this position?

Mr. WERFEL. Yes, roughly 5 times over the course of 4 years.

Mr. CHAFFETZ. At the White House?

Mr. WERFEL. I had—

Mr. CHAFFETZ. I mean, you're at the White House, so—

Mr. WERFEL. Yes. I can recall, I think, two meetings or seeing him twice at the White House.

Mr. CHAFFETZ. What were the topics of those meetings?

Mr. WERFEL. One of them was a signing ceremony for the signing of the Improper Payments Elimination and Recovery Act. I remember him being at that signing ceremony.

The other was a meeting that was held in the Eisenhower Executive Office Building. The topic of that meeting was—the issue was this. The IRS—and Mr. Shulman was representing the IRS—was expressing concern to the Social Security Administration, and former Commissioner Astrue was in the room. The concern was that when the Social Security Administration releases information on deceased individuals through the Death Master File publicly—

Mr. CHAFFETZ. Okay. I look forward to hearing more information about that. My time—

Mr. WERFEL. It was an improper payment issue. My primary responsibility at OMB was improper payments.

Mr. CHAFFETZ. Okay. Mr. Werfel, I appreciate it. Let's keep going. How many criminal referrals have happened relating to the topics we have been discussing?

Mr. WERFEL. Criminal referrals? I don't think there's been any yet, but the Justice Department and the Inspector General are actively reviewing those issues. Interviews, documents, they're getting to that question.

Mr. CHAFFETZ. Do you believe—you know, the IRS received some \$80 million through the stimulus. My own personal purview here is that here comes the stimulus, they thrown in hundreds of billions of dollars, I for the life of me cannot figure out how to stimulate the economy the Obama administration gave \$80 million to the IRS. I don't understand how that stimulates the economy.

But can you see where maybe—and I guess it's more of a statement than a question—that sort of this abuse of money is that they were just overflowing with cash? Suddenly had this infusion of \$80 million—oh, \$4 million for a conference, oh, that's fine. I just, at some point Mr. Werfel, my time is running out, I would hope you get back to that.

Last question, what does it take to actually get fired at one of these organizations? I mean, you've got people who you say accountable, accountable, accountable, the Speaker wants to know when somebody is going to jail, I want to know what it takes to actually fire somebody.

Mr. WERFEL. It's an important question, and I think this committee is asking for recommendations on how we can improve the IRS. Part of that improvement is how do we improve timeliness of accountability. This is one of the questions that we can surface in terms of looking at our personnel rules and determining are they sufficient to meet the country's needs in terms of when something goes wrong who's held accountable. I am certainly open to discussing that with this committee and others.

Mr. CHAFFETZ. Encouraging retirement is not holding somebody accountable for misdeeds and misspending the American people's money.

Thank you. I yield back.

Mr. JORDAN. Could you fire somebody for refusing to answer questions of the United States Congress related to a matter at the IRS?

Mr. WERFEL. I don't know. I would have to ask. I would need legal counsel to advise me on that.

Mr. JORDAN. Okay. I think you probably can.

The gentlelady from California is recognized.

Ms. SPEIER. Mr. Werfel thank you. I'm hoping that under your leadership we're going to have a kinder and fairer and more frugal IRS. Can you promise us that?

Mr. WERFEL. I think those are three adjectives that I'm willing to support, certainly.

Ms. SPEIER. All right. One of the problems that I think initiated the Anaheim conference was the fact that you were coming to the end of a fiscal year and there was unused money. Correct?

Mr. WERFEL. There was—yes, there was extra money available, and clearly in this case that money wasn't deployed to its highest and best use.

Ms. SPEIER. Okay.

Mr. WERFEL. There's absolutely no doubt about that.

Ms. SPEIER. But you worked at OMB before, so you've seen this phenomenon before, it's something I'm very concerned about, which is as various Federal agencies come to the end of the fiscal year and they have money left in accounts, they want to spend it down because there's fear that if they don't spend it down they will not be fully funded in the subsequent year. Is that correct?

Mr. WERFEL. That is a major problem.

Ms. SPEIER. Okay. That's a major problem.

Mr. WERFEL. Yes.

Ms. SPEIER. What would you recommend that we do government-wide in terms of addressing what is—I think IRS is just one example of what's going on in every agency in the country in the Federal Government when they've got money at the end of a fiscal year and they don't want to lose it, so you use it, and you find some way to use it. And in this case it was an Anaheim conference and somewhere else it's, you know, some other form of training or it's swag or whatever.

So how do we fix that? Do we just freeze any kind of purchases in the fourth quarter unless it goes through a different process?

Mr. WERFEL. I think it's a very difficult question to answer. I think what happens at a lot of agencies is because this is known as a classic financial risk that we face in the Federal budgeting process there are chief financial officers and chief operating officers that are closely reviewing all expenditures that occur at the end of the fiscal year to make sure that money isn't being deployed for unnecessary or inefficient purposes.

Ultimately, the goal is to make sure that the resources that are available are targeting areas that are going to have positive return on investment for the taxpayer, positive programmatic impact. If I see an expenditure that goes on in September I don't automatically

think that might not be a good expenditure because if it's doing something like, for example, helping the IRS, you know, track down a criminal, get to someone who's doing identity thefts, getting to someone who's defrauding the government—

Ms. SPEIER. Right. I mean, there's a difference between doing an criminal investigation and having a conference.

Mr. WERFEL. Absolutely.

Ms. SPEIER. So there's a way of distinguishing. I guess what I'm asking you, I've got limited time, is for you to give us some advice. I mean, you've come from OMB, you know this is a phenomenon, you know that we've got to address it. What would you recommend that we put in place that would at least reduce the likelihood that this kind of crazy spending, this shopping spree mentality, goes on in the fourth quarter of a fiscal year?

Ms. SPEIER. Let me move on to—

Mr. WERFEL. Let me just—I think one idea that comes to mind very quickly, it's not an idea but it's a fundamental principle, transparency. There should be more transparency about what goes on with Federal spending across the entire spectrum. And I think if you have transparency in terms of the kind of purchases that are happening at the end of the fiscal year it would bring light of day to appropriators and to others. So let me just offer that.

Ms. SPEIER. All right. Thank you.

Now, the Inspector General's report indicated that the IRS did not adequately track or document money spent on the Anaheim conference. I guess I'd like to know how the IRS has addressed this concern. If you've already answered this question you don't have to answer it again. Okay.

Mr. WERFEL. No, I haven't. There is a variety of different recommendations in the IG report for IRS. We have either implemented or in process of implementing them. We are updating our financial management manuals to make sure that when conferences occur that they are tracked and that they meet robust accounting requirements to make sure we know where the money is going. So we basically updated the requirements for managers in terms of how they report information on conferences.

The irony here is that we have very few big conferences anymore. We've really knocked down in very significant ways, more than 80 percent the nature of this activity. Nonetheless, we have still put in new procedures to make sure that when it does happen, even at this very reduced level, that it's tracked more appropriately.

Ms. SPEIER. Okay. Finally, and this is more of a generic question I'd like to ask you from your experience at OMB, I have got a bugaboo about swag. I think the Federal Government does not need to be in the business of buying anything that resembles swag. And I think we spend a fair amount of money. I could look at all of those coins that Department of Defense prints out, and I'm sure it's very expensive.

So what would you say about swag and how widespread is it?

Mr. WERFEL. I mean, I'm in complete agreement. One of the interesting parts about this, my choice to go over to IRS, is that I have a history of responsibility around cutting waste, reducing error. I was pretty central to efforts at OMB to cut down on conference spending, to cut down on swag. We put in, in an executive

order, while I was at OMB restrictions on the spending of any money on swag. And as I think has been testified to, the types of things you saw going on in 2010 are significantly less likely to happen today. Are they zeroed out? I don't know. But I don't want any swag purchased at the IRS while I'm Commissioner for sure.

Ms. SPEIER. Thank you. I yield back.

Mr. JORDAN. Thank you.

The gentleman from Oklahoma.

Mr. LANKFORD. Thank you.

Mr. Werfel, it's good to see you again.

Mr. WERFEL. Yes.

Mr. LANKFORD. On the Budget Committee and then on Oversight and Government Reform we've had numerous conversations before. In your previous role you've done an excellent job.

Mr. WERFEL. Thank you.

Mr. LANKFORD. And I look forward to you taking this on, and there is much to be done. That had to be an interesting feeling, to walk in the first day into IRS and think where do you start. So might as well start here. So thanks for doing it, thanks for taking it on.

You know very well and you mentioned it earlier, in your earlier statement, that Americans have lost trust. I've been overwhelmed with individuals that have contacted me when I've been in district or have contacted my office and said, I've always suspected I was being targeted, but I started giving politically, and that next year is when I was audited by the IRS and I've always wondered about that over the last 3 years.

So this has moved from nonprofit groups that we now know were targeted to ask for additional information and giving a nonresponse to individuals that now rise up and say, I think I was, as well. So as this broadens, and as we begin to look at it farther, those questions will continue to rise, and we will continue to have people contact our office and say, why was it I've been in business 40 years, I've never been audited, I started given politically and now I have.

So those are all questions that will have to be addressed, and obviously 2 weeks in the office you can't address that, but add it to your list because that's coming as well.

Mr. WERFEL. I will. I do have one reaction to it, which is, you know, this process, I said we have to fix the process, I'm going to give a 30-day report that provides an update. One of the process fixes that I think is vital is more checks and balances in how these decisions are being made. Again, I think one of the problems that you have is if the IRS is too insular in how it's carrying out its work and there isn't kind of active oversight and check and balances. And I think if we can structure the right sets of checks and balances it would give comfort to your constituents that there's change amidst and there are controls in place to make sure that fairness is being applied.

Mr. LANKFORD. Right. There's not much comfort for them. I can assure you of that.

You mentioned in your opening statement as well some personnel matters that are going on right now.

Mr. WERFEL. Yes.

Mr. LANKFORD. That is known, it's out there. The former Director of Collection Policy is now the current Director of Implementation and Oversight of the IRS Affordable Care Act office. There was a reception that was held where 18 people were invited. We have access to it, I'm not going to list names as we talk through this. But the email track coming in from the hotel reads this way. "While I'm out"—this is someone in the hotel informing someone else what to do—"While I'm out there, there will be some hospitality for 18 people in room 431. It is to be kept confidential. The only person to discuss with this," and I'll leave name out, "is the contact for the event. It's posted on the hospitality board but the one I have attached is the credit card information for billing. This card is only to be used for the food and the bartender fee. The beer and the wine will be paid by a credit card given to you at the end of this function," and inserted this IRS employee's name. Underlined and in bold: "Do not post this to the room. It can't be shown as a room charge. I have been," insert a person's name here, "permission, and you should use that to close out the credit card. But this person knows he's buying the booze and you shouldn't have to."

So this confidential report that we now know was about 18 people that were there, they had \$44 a person in what they listed here as booze and had \$65 a person listed as food on it. One of those individuals, or two of those individuals maybe, are now under administrative review and are on paid leave.

You've got to start this investigation, if you're that familiar with it you bring it up in your opening statement. The question remains do you know right now who are the other 18—the other 16 people that were involved in that?

Mr. WERFEL. I have asked that question, we are gathering that information, very important, and anything that we do that we make sure we have valid, reliable information. So we're working on that and that information will be made available.

Mr. LANKFORD. Do you know, it was 18 people were set aside for hospitality, do you know if it's even 18 people that were there, was it more or was it less?

Mr. WERFEL. It's my understand that's in the right range, but again I don't want to commit to a particular number because we're still doing our review.

Mr. LANKFORD. You're welcome to do your review. Are you familiar with any other senior-level or any of the management-level IRS officials that were there at this reception? These are obviously management-level folks when it's a confidential reception that was held as a part of this event in Anaheim. We don't see any kind of tracking how the invitation was done, and we're still trying to determine who was invited and how were they invited to this. Are you aware how that happened?

Mr. WERFEL. Again, I'm not yet ready to articulate the specific, but my commitment is we are working through that issue and we will get you those answers.

Mr. LANKFORD. How about the purpose of the reception? Are you able to identify it at this point? Again in a confidential reception we have yet to see anything in writing that actually dictates this reception is being held for this.

Mr. WERFEL. Not yet, not the purpose. But what—we were able to determine enough to determine that two employees may have, and we're looking into it, but we believe there's significant evidence of a violation of an ethical code of conduct.

Mr. LANKFORD. You understand all the issues with this, not only just for IRS, but this is the Director of Implementation and Oversight for the IRS Affordable Care Act office. I mean, there's already a lack of trust there, then we're trying to figure out who was this gathered, what was this, we have inappropriate use of funds here. We're trying to figure out all the dynamics of it. So there's a lot of things we have to connect to get the facts. As you're gathering that, do you have a timeframe on when you'll have that together?

Mr. WERFEL. I'm not going to commit to one, but I will, like I offered to Congressman Chaffetz, I will get back to you expediently on a timeframe so you can of a notional sense how long this will take.

Mr. LANKFORD. Great. I appreciate that. But can you give us a ballpark? Because you're in the process. Obviously you're walking into the middle of this. But you've got enough facts and information that you've put somebody on administrative leave already at this point.

Mr. WERFEL. That's correct. That's correct.

Mr. LANKFORD. This report came out 3 months ago. Then 4 days ago, basically, our committee staff started contacting and asking questions about this reception. Within 2 days we've got somebody that's on administrative leave and is gone 2 days after we start asking about it. So enough information has risen up quickly you've got serious concerns about this.

Mr. WERFEL. I do.

Mr. LANKFORD. We're trying to figure out as you're gathering information the timeframe of gathering that information.

Mr. WERFEL. Let me just state this, and I might have to reach out to you more to kind of update you as we go. The process, the personnel process that we're about to undergo, and the reason why people get placed on administrative leave before they're eventually dismissed is because there's a fact gathering and a response. That's a 30-day initial process. So a lot is going to be able to be gleaned about that situation over the next 30 days.

Mr. LANKFORD. Okay. Terrific. Thank you. Look forward to getting that timeline.

Mr. JORDAN. Mr. Horsford.

Mr. HORSFORD. Thank you, Mr. Chairman.

Mr. Werfel, good afternoon.

The Internal Revenue Service holds the general public and businesses to high standards when filing their taxes. The same is true of nonprofits who must maintain certain standards for their tax-exempt purposes. The fact that the IRS is now demonstrating a pattern of, in your own words, management failures to meet the very standards that they hold the public, businesses, and nonprofits to is very troubling and, frankly, unacceptable. You are one of the most powerful agencies in the United States, and there are serious consequences when any citizen, business, or nonprofit commits fraud or is suspected of wrongdoing with regard to their taxes or tax filings.

What steps are being taken to reform the agency now to make sure you hold yourselves to the same standard you hold the American people?

Mr. WERFEL. That's a very important and good question. Let me walk through the steps for you.

First of all, I think it's important to point out, if you look at the IRS on the day the report was issued and the IRS today, there has been replacement of leadership at very critical levels. I am a believer that accountability is driven from the top down. The IRS today has different leadership: the Acting Commissioner slot, Deputy Commissioner for Services and Enforcement, Commissioner of Tax-Exempt Organizations, Director of Exempt Organizations unit. If you're familiar with the IRS org chart, I am working my way down and pointing out that from the time the IG report was issued to today, there is leadership replacement at every level. We've added new leadership. Obviously myself. I have also brought on other people.

In particular, I want to point out a person by the name of David Fisher, who is a high-ranking official from the Government Accountability Office, an expert in risk management, coming from GAO. He is now the Chief Risk Officer of the IRS, and he is indispensable, I think, in these efforts to make sure that we are changing the culture and the approach at IRS.

Other steps: accountability. I'm continuing to review the information in the audit report, as I mentioned earlier. Just based on that audit report there are gross examples—there are examples of gross mismanagement. And you can make determinations, and I am doing it as thoroughly and as fairly as I can, you can make determinations that there are individuals, because of their mismanagement practices in this case, can no longer hold positions of the public trust at the IRS. Those reviews are ongoing. Again, fair, thorough, but expedient.

I can keep going, but I just want to give you confidence that we have an action plan, we have things taking place that are in immediate term to get at these issues. It's hard, but we are working very diligently to start to correct these problems.

Mr. HORSFORD. And I appreciate that. And I want to say in respect to the opening remarks by our ranking member, as well as the chairman, I hope under your leadership we can take a step back, look at the whole of the agency, look where we need to strategically reform, and not just moving players and actors within the agency but fundamentally reform, which is one of the missions of this committee. And I know you touched on the importance of information being protected, the impartiality, and the issue of spending wisely, which is one of the reasons that we're here today.

And I do just need to touch on one concern that I have as well, being from Nevada. I don't believe that Anaheim or places like Las Vegas should be singled out somehow as because of the place that the waste that the agency was involved with—which was wrong—that somehow these places should be targeted and prohibited from having conferences held, which is why my colleagues throughout our delegation and I introduced H.R. 1880, the Protecting Resort Cities From Discrimination Act, to prevent Federal agencies from blacklisting resorts and casinos as conference destinations. It's not

the destination that's the problem, it's the internal failure to spend appropriately, and it doesn't matter where that spending occurs. So I just want that noted.

I do want to follow up in my concluding question to Ms. Maloney. You said that you have to follow this primary regulation.

Mr. WERFEL. I do.

Mr. HORSFORD. The law is exclusively. Why don't you have to follow the law?

Mr. WERFEL. Actually I have to follow the law and regulation—

Mr. HORSFORD. So the law is exclusively.

Mr. WERFEL. The law is exclusively, and the implementing regulation is primary, and that's part of the challenge.

Mr. HORSFORD. So the regulation is not in compliance with Federal law, correct?

Mr. WERFEL. I don't know that I can answer that question. I think that's something that we have to review with—

Mr. HORSFORD. Well, you said earlier that primary activity is not the same as exclusive.

Mr. WERFEL. It's not and—

Mr. HORSFORD. So therefore it's out of compliance with Federal law.

And I believe, Mr. Chairman, that agencies must follow the law. We, as Congress, set the law. We haven't changed the law from exclusively. And it's important that you implement your regulations accordingly. I'm glad to hear that you're reviewing that—

Mr. WERFEL. I am.

Mr. HORSFORD. —with the Treasury and that you've agreed to some bipartisan participation, because the law is exclusively.

Mr. WERFEL. And I want to be clear, the ambiguity that's created between the law saying exclusive and the regulation saying primary is a problem, and it's, you know, it's one of the contributing—

Mr. HORSFORD. So therefore the reg needs to be changed to be in compliance with Federal law. Unless Congress changes the law, that's the standard, and that's what the agency should be held to.

Mr. WERFEL. We're looking at those reg changes.

Mr. HORSFORD. Thank you, Mr. Chairman.

Mr. JORDAN. The gentleman from North Carolina.

Mr. MEADOWS. Thank you, Mr. Chairman.

Thank you, Mr. Werfel, for your candid answers today. I want to follow up a little bit on some of these.

Do we know exactly when Ms. Hall, Sarah Ingram Hall, left to go and take on her primary responsibilities with the Affordable Care Act?

Mr. WERFEL. I don't have an exact answer on that, but I think it's in the range of spring/summer 2010. It's in that range. We're still working through with Ms. Hall to make sure we have a better understanding of exactly when she left her role to go over to the ACA.

Mr. MEADOWS. So you'll be able to get back to us—

Mr. WERFEL. Yes, we're working that issue very closely.

Mr. MEADOWS. All right. The other day at the House Appropriations Committee you talked about—I guess the bonus was brought up and you said you would get back to them.

Do you have an answer for us today on the bonus that was paid?

Mr. WERFEL. Can you remind me which question.

Mr. MEADOWS. It was basically what kind of a bonus was paid to Sarah Ingram Hall. And you said you would get back to them. And I assume that you went back to your office or your staff did to check on it. Can you tell us today what that bonus was?

Mr. WERFEL. I will ask my staff if they can look into that. I don't have that information at my fingertips, but I can get that for you.

Mr. MEADOWS. Did you go back and look into it after—

Mr. WERFEL. We had a session where we went through all of my commitments that I made in that hearing and made sure that we were getting to the answers to each of them. So I don't know yet—

Mr. MEADOWS. So you have not had a discussion following that hearing about bonuses for Ms. Hall?

Mr. WERFEL. No, there were several issues raised in that hearing about bonuses and I just don't want to misspeak. There was a couple of questions that I had to go back to the office and make sure I was getting answers on. Again, this is—I'm going to get you the information, this is just about get you the right information.

Mr. MEADOWS. Does your staff—does your staff know today? Do they know—

Mr. WERFEL. No. We're going to have to go back to the IRS and work through and get that information.

Mr. MEADOWS. So they don't know?

Mr. WERFEL. I don't think I have the right staff here to answer that particular question. But again, this is not—this is—we'll get you that information.

Mr. MEADOWS. All right. Let me go forward with a little bit of this.

Mr. MEADOWS. Can you give us assurances here today that targeting outside of the 501(c)(4)s, did not happen with regards to auditing, with regards to penalty waivers, with regards to fees? Can you give us those assurances that that is not happening systemically across the service?

Mr. WERFEL. Here's what I can say. I'm not aware of it at this time, but I am—

Mr. MEADOWS. Have you investigated it?

Mr. WERFEL. I am working through that. I have been here for 2 weeks. There is a lot to cover. But I'm not ready to make those assurances because I have not yet completed the review.

Mr. MEADOWS. So you cannot give us those assurances?

Mr. WERFEL. It would be a mistake for me to do it.

Mr. MEADOWS. I agree with you. I'm not saying that you should, because I believe that we don't know.

Mr. WERFEL. But I also would clarify that I'm—at this point in time, I'm not aware of it. Because if I was, it would be stopped and you would be made aware.

Mr. MEADOWS. Okay. You also talked about, you know, we need to have more people in the accountability, just previously in your testimony, when you said it was, you know, when you are singular,

you need more layers of accountability. But yet, we saw with the 501(c)(4), that was not something that was unique to just Cincinnati. It involved a number of people in Washington, D.C., the technical advisors, and dozens of people knew about the problem. So how does more people actually fix the problem?

Mr. WERFEL. Well, I'm not sure—or I would say that more people fix the problem. We could end up with a solution, and I would be very open to that solution because I'm also interested in cost cutting, with the solution that has less overall people. What I meant by more people was that we have people that have different responsibilities, maybe an independent board like the IRS oversight board or something like that, who can look in and report more quickly whether it's through whistleblowing, or write to this committee or something like that, so again, the American people—

Mr. MEADOWS. So we need an independent board to oversee—

Mr. WERFEL. We have one. We have one. We have the IRS oversight board. The question is, and this is something that I'm exploring, and I'm being very candid—

Mr. MEADOWS. Right.

Mr. WERFEL. —about different ideas because at this point we are just at the idea phase, is maybe that board or other type of mechanism could be inserted to do ongoing reviews. Because if you go back in time and if you had a situation where there are ongoing reviews through 2010 and 2011, you might be in a situation where this was picked up more quickly. And that's what I want to look into.

Mr. MEADOWS. All right, have you had conversations with Beth Tucker with regards to 501(c)(4)s, and what she felt like was the issue?

Mr. WERFEL. I have had many conversations with Beth. She is a critical part of the leadership team, yes.

Mr. MEADOWS. Okay, and did she see it as targeting? Was she aware of it?

Mr. WERFEL. I think—well, she was not aware of it. I think we all have collectively looked at the situation, and agree that the singling out of applications for extra scrutiny based on political labels can fairly be described as targeting.

Mr. MEADOWS. So she was never aware of it until the report from the IG came out?

Mr. WERFEL. At this point in time, I'm not aware that she was aware of it. I'm not going to speak concretely—

Mr. MEADOWS. So she wasn't—

Mr. WERFEL. —but this is part of the process. Again, I go back to the guiding principles: Thorough, fair, and expedient. And before I come out here and make a conclusion, I have to be given the opportunity to do a thorough, and fair, expedient—

Mr. MEADOWS. But I'm asking you about your personal conversations with her.

Mr. WERFEL. Okay, and based on those personal conversations, I'm not aware at this time of the exact timing that she knew of the situation.

Mr. MEADOWS. Okay. And my last question is, is with regards to Nancy Marks.

Mr. WERFEL. Yeah.

Mr. MEADOWS. She was the assistant to Sarah Ingram Hall, is that correct, technical senior advisor according to the flow chart under the IG's report, so she actually worked—

Mr. WERFEL. I actually think at some point because people moved around, but she was the technical advisor within—

Mr. MEADOWS. When did she first go to Cincinnati to talk to them about that? Because obviously, she would have had to flown to get there, or paid mileage so we would have some documentation. When was the first time that she went to Cincinnati?

Mr. WERFEL. I'm going to qualify it by saying I would like to double confirm, but I think it's around March 2012.

Mr. MEADOWS. Well, we have narrowed it down that far. When in March of 2012?

Mr. WERFEL. That I would have to get back to you. I don't have that—

Mr. MEADOWS. Because we know within a time frame because that's critical. Because we had testimony that was given in Ways and Means on March the 22nd, 2012, and if she went before that, it would indicate that we have people that sent her to check on things while that testimony was being given in another. So that's critical, that time frame.

Mr. WERFEL. I will try to get you more precision on that.

Mr. MEADOWS. All right. And so you have got a follow-up. Thank you, Mr. Chairman, for your indulgence.

Mr. JORDAN. I thank the gentleman. Real quick, Mr. Werfel, on Sunday, David Plouffe was on the Sunday shows, and they were discussing the targeting of conservative groups in the tax exempt division of the IRS, and he made the statement that this was not at all political. And I'm just curious, do you agree with Mr. Plouffe's assessment of what went on in the tax exempt division of your organization, of your agency?

Mr. WERFEL. I don't think I know the answer to the question. We have an audit report. The audit report doesn't find any evidence.

Mr. JORDAN. I'm asking, do you agree—

Mr. WERFEL. I'm going to try to answer. The audit report that I'm relying on, it is a very important document and fact pattern to review. It does not, at this time, find any evidence of political animus, or motivation with respect to this targeting.

Mr. JORDAN. To date, has any—has there been any group on the list who was targeted who is a left-leaning group? Have you identified one group as a left-leaning group, yes or no?

Mr. WERFEL. I have to—I can answer that question once I make sure that I have appropriate 6103 redactions, so I can get back to you on that question, but I have to do a 6103 redaction.

Mr. JORDAN. Are you aware? Are you aware of any group that has come forward and said that they experienced the same kind of targeting several groups on the political right have experienced?

Mr. WERFEL. Here is how I answer that question. That we have started to produce documents to Congress, to Ways and Means, and Senate Finance. In those documents are additional helpful information that is coming to light that gives more information about the BOLO list, and different types of organizations that were on the BOLO list, and based on that, and the problem with that document is that there is a lot of 6103 information over it. So—

Mr. JORDAN. Well, let me ask it this way, then. Is there anything on the BOLO list, any terms—I have yet to see one term on the BOLO list or the three terms initially used to target and develop the list, initial terms were Tea Party, 9/12 and Patriot, and then the BOLO lists, I have yet to see any terms on that list that would frankly apply to left-leaning groups. They only seem to apply to right-leaning groups. We have only had right-leaning groups been identified and come forward.

So I guess I'm back to the first question. Do you agree with Mr. Plouffe that it's—that this was not political? Because I don't see how you can reach any other conclusion but that it was political, but he says it's not.

And I want to know what you, as the guy who is in here cleaning up an agency, and it seems to me, in order to solve the problems, get to the bottom, hold people accountable, you need to know the motivation. And right now the only logical conclusion is this was politically motivated. I want to know if you agree with that.

Mr. WERFEL. Here is how I would answer the question. If the audit report did not find it, it would be inappropriate for me to speculate that there was political motivation. It would be inappropriate for me to speculate—

Mr. JORDAN. Why is it inappropriate for you to speculate? I'm asking you to draw a conclusion based on the evidence, and the evidence is this: Not one group on the left has been identified for harassment. Hundreds, for years, have been identified on the right. So not one on the left, hundreds on the right, and yet you are still saying I don't believe this is politically driven?

Mr. WERFEL. I'm not—I'm saying I don't have enough evidence to make a conclusion at this time. And what I'm further saying is that there is data—

Mr. JORDAN. Do you think reasonable people, though, could look at the evidence and say, there is enough evidence to conclude that it was politically driven, because we have yet to find one group on the left, and we have got hundreds of groups on the right?

Mr. WERFEL. I think the problem is and there is a tension here, the tension is that there is more relevant documents and information that needs to be looked at before we can—

Mr. JORDAN. Okay, and any of that relevant documents that you—anything you have seen thus far that shows a people—groups on the left were targeted. Have you seen anything that points to that yet? I'm just asking today.

Mr. WERFEL. There are—I am unable to answer that question because I would be legally unallowed to answer that question because I have to go through a 6103 process and make sure I give you an answer that I can legally give you. And I have not gone through that process yet. So...

Mr. JORDAN. 6103 says you can't give away personal tax and identify who they are. I'm not asking you that. I'm just asking, is there any group on the left? I'm not saying tell me the specific group. I'm saying, is there any group on the left who has been targeted? I mean, I don't know how anyone—I would think we have folks on the—my colleagues on the other side of the aisle who would say, this sure looks politically driven to me, because they

don't know of any—no Democrats told me a group on the left has targeted.

Mr. CUMMINGS. Will the gentleman yield just for a second?

Mr. JORDAN. Absolutely.

Mr. CUMMINGS. Would you define what is left and what is right? No, I'm serious. What is left and what is right? I mean, that's a hell of a question. Well, I'm just curious, I mean, I just want to know. I want the benefit of your answer, but I want to know what's left and right.

Mr. JORDAN. Yeah, well, I mean, do we know any groups with the term progressive or liberal in their title that were targeted? We don't know of any. Do you know groups with Tea Party, Patriot, 9/12 government, reduce government spending who were targeted, hundreds. That's—that's what I'm—that's what I'm getting at.

Mr. WERFEL. And what I was saying is, I was brought to the IRS to make sure we are enforcing the rule of law. It would violate the law for me to answer your question directly, but what I will say—

Mr. JORDAN. I don't know how it violates the law because you are not giving any specific—I'm not telling you to say, oh, you know, the Hamilton County Progressive Institute was denied. I'm not telling you to give me a specific thing and talk about them specifically. All I'm saying is, have you discovered any, name one. That's all I'm saying, because Mr. Plouffe seems to think there are, and they are saying it is not political, and yet we have received no evidence that would validate Mr. Plouffe's statement.

Mr. WERFEL. All I can say is that that information is forthcoming. We are running a process. It's fair, it's thorough, it's expedient and it's legal and these answers will be available. But I cannot provide premature answers before I go through the appropriate processes. I just can't do it.

Mr. JORDAN. The gentleman from Maryland is recognized.

Mr. CUMMINGS. Thank you very much. First of all, I want to thank you, Mr. Werfel, and I'm reminded that you have only been there for 2 weeks. But this is a subject that's bugging the hell out of me, and I want you to help me with this.

You know, I keep hearing this argument that because we had some bad players and people not doing their job properly, that there is going to be a problem with addressing the responsibilities under the Affordable Care Act. This is America. Everybody on this—in this committee has fired people. Everybody. And if they hadn't fired people, they just keep on living and keep on working. We don't, because we have a bad actor, we don't suddenly quit Congress. We don't suddenly go off our mission. We let them go, and then we try to find somebody else who can do the job.

Probably everybody in this room has been through some kind of process like that. A lot people in this room have gotten the jobs they got because somebody didn't do the job properly. This is my point. I don't buy this Affordable Care Act because we had some bad players, we cannot do the job. This is America. And if we took that attitude, we would never get anything done.

So I'm asking you, and from what you have seen, I know that you said you are going from the top to the bottom and you are going off—you are doing what you got to do. Tell me this: Do you

feel confident that doing the things that you can do, that you can find the appropriate people and create—help create the climate whereby we can get the Affordable Act responsibilities done pursuant to the law, which is the law, by the way, no matter how many times people may want to do away with it, it is the law. And we are—we are charged with the constitutional duty of enforcing the law and making the law happen, and you now have a responsibility of dealing with the law. Can you find the people that can do it?

Mr. WERFEL. Yes.

Mr. CUMMINGS. And can you carry out the responsibilities?

Mr. WERFEL. Yes.

Mr. CUMMINGS. And the reason why I ask that, is that I swear to God, it just bothers me, this no-can-do attitude. Not from you, but Members, oh, God, we have some bad employees. We can't do this. No, it doesn't work that way. My father was a former sharecropper with a second grade education. And one of the things I love about my dad, God bless his soul, he used to always say to us, he would say, there is no such word as can't. And he said, you've got to, you can get things done. And he was able to raise his seven children, educate all of them well, and successfully build his church with my mom on a second-grade education.

This is America. And as I said to you a little bit earlier, you have got a tremendous responsibility. But I hope, and I pray that you don't go in there with the attitude that because we have got some bad actors, and because the climate was not what we want it—wanted it to be, that we can not carry out the mission of this country. We are better than that. We are better than that.

And if we take that kind of attitude, I don't know what we will be able to accomplish at any time. And there is no Member of this Congress, as I said before, who has not had to let somebody go, who has not to fire somebody. So you feel confident about it. And how will you go about that? Because I'm tired of that argument.

Mr. WERFEL. Well, you're absolutely right. We have a legal responsibility, a tough operational challenge. I have started to look through our ACA work very closely. We have hit all of our key milestones, and I think we are on a path to hit the rest of our key milestones. I think one of the first things that I have done is I have had to put in a new individual who is taking on the responsibilities of the Commissioner of Services and Enforcement, which oversees the Affordable Care Act work. She is one of the most talented civil servants in the IRS. She has an enormously effective track record at getting things done. She came over from part of IRS called Large Businesses and International.

And for me, it is a lot about leadership. You get the right leadership in place, she is going to be able to recruit the right talent in place, hold individuals accountable, get us to our milestones, and get the job done. But I'm going to be very active in this area because it is one of our critical operational priorities, and I'm responsible ultimately to make sure that we hit all of our deadlines, and my commitment is to do everything we can to hit them.

Mr. CUMMINGS. Thank you very much.

Chairman ISSA. Well, they don't get any easier in this hearing. So the good news is, this one is nearly done. The bad news is, that you agreed to come back and work with us.

Mr. WERFEL. I will.

Chairman ISSA. So let me just—let me just get back to—put that back up. You are familiar with the congressional act that created the Taxpayer's Bill of Rights.

Mr. WERFEL. I won't say I'm an expert at it, but yes.

Chairman ISSA. Have you—when you look at it, if you would get back to us and talk to us about, essentially, I will get it back on the screen, 1996 Act, which amended the Code from 1986, and so on. But it established taxpayer advocates and so on.

Mr. WERFEL. Yes.

Chairman ISSA. And it is an area in which it is not the jurisdiction of this committee, but hopefully, you would look at that and say, aren't there some—some things that weren't upheld that you will fix by better management? And perhaps, some things that need to be put into that—the symbolism of that Act that would cause the Ways and Means Committee or whatever committee of jurisdiction, I presume it's them, to update it, because I think that part of the confidence that we are asking you to reestablish is literal. Some of it is symbolic. Some of it takes time, but some of it, like today's hearing, with your willingness to come forward, we have started that.

Mr. WERFEL. And I think the people of the IRS, and I have mentioned this before, they are shocked and appalled by what happened in the 501(c)(4) situation. They are embarrassed by some of the inappropriate spending in the Anaheim situation. There are institutions within IRS like the National Taxpayer Advocate who holds as their primary mission to help taxpayers navigate through the tax system in a way that is fair and understandable. And I have spoken to our National Taxpayer Advocate, and she is ready, as a lot of the other leaders in the IRS are, to take on the types of transformational change that is necessary to make a difference here.

Chairman ISSA. I appreciate that. I might suggest that the next time letters come from Members of Congress, both sides of the aisle as they did here, that perhaps that somebody who should see them as an ombudsman and begin asking is there a there there? Because I think one of the challenges is, in the opinion of the chair, you have had two former individuals, one acting, Mr. Shulman, who—they didn't do their job. They are not managers up to the task. So I can't go back through every Commissioner, although I have met a number of them, but I can say, look, your two predecessors, not so good, just not so good. And I think we have met them. We have seen them. The American people have watched them, and they are disappointed in what they saw in hearings, but I think they were disappointed, as you are, in what happened on their watch.

A couple of things. You're aware by now of the investigation related to procurement, about a half billion dollars worth of open contracts originated within a HUBZone here in the District of Columbia, are you?

Mr. WERFEL. I have had very preliminary briefings on it, but I am familiar with the issue that you referring to.

Chairman ISSA. This, in the opinion of the chair, from what my investigators have gleaned, represents a—and again, only in the opinion of this chair, but I believe strongly that fraud was per-

petrated; that it included misconduct both by personnel within the IRS, and obviously, by the applicant.

Now, you both strongly disagree. But I certainly think that if it is within your power, to immediately, or as soon as possible terminate any further procurement on a contract that, from our estimation, regardless of how it was procured, is costing the taxpayers every time you buy off of it more money than a replacement contract would cost, that your willingness to attack that—it may only be a couple of million dollars in savings, but I think symbolically, it is a big difference if we can stop that one sooner if you have the power to do so.

Mr. WERFEL. I don't know enough yet to comment conclusively or concretely, but I will committee to work with you on this to see what I learn, share it with you, and make sure we have a good path forward.

Chairman ISSA. Well, and I will enlighten you with the time I have remaining with one small fact. When this applicant applied for a HUBZone, something that the ranking member and I believe that when you have historically underemploying business set systems which is what this was, Northeast Washington, D.C., the gentlelady, delegate isn't here, but this is an area that could use some job creation. The applicant in that case clearly said, yes, I'm going to create jobs in Northeast Washington. And then created only a few jobs with some college students whose parents were spending \$30,000 or more to send them to Catholic University, not part of the underprivileged portion of Northeast Washington, D.C. Ultimately, they were making a few dollars looking at computers, providing no significant jobs, certainly, no job to the indigenous people of that region of the District of Columbia. They had no real presence there, and I think, you know, an abusive set-aside to people on both sides of the aisle, sometimes agreeing or not agreeing on some set-asides, but the abuse of the set-aside means that Mr. Cummings in Baltimore and parts of his district that are HUBZones, those people didn't get an opportunity to bid on that lucrative contract. Other people in the District of Columbia in those areas didn't. So I'm beating a dead horse, I don't mean to do so, but I think we are very passionate about fixing that particular contract.

Mr. CUMMINGS. Would the chairman yield?

Chairman ISSA. Of course.

Mr. CUMMINGS. First of all, I—Mr. Chairman, I want to thank you for raising that issue. You are absolutely right. I think that whatever the law is with regard to HUBZones and what have you, Mr. Werfel, I, too, want to make sure that they have been properly addressed. I think people should play by the rules. The rules have been set up in a certain way, and if people are not going by the rules, I got a problem with that. And I would appreciate your response. I know you got to look into it, but—

Mr. WERFEL. I will. I absolutely will.

Mr. CUMMINGS. Thank you, Mr. Chairman.

Chairman ISSA. One last point, and this is a discovery point and we have talked to your counsel for a few moments before I came back to the dais, who I understand has only been there about the

same amount of time or a little less than you. So I don't want to be unfair to anyone.

This committee would like to dispense with all of our discovery on the broader case as soon as possible. I know you would like to have as much of that behind us. In order to do so, we have a specific request, which is that documents have been requested by this committee, and, thank you—and even if they were not requested by the Ways and Means Committee, we would appreciate, essentially, as soon as possible, sending unredacted, all information requested by this committee to the Ways and Means Committee, because they have personnel who are cleared to look at 6103.

Mr. WERFEL. Yes.

Chairman ISSA. They can hold those documents. If we need a special quick, while you are going through redaction, look, we can ask them to analyze one, suggest redactions, work with your staff to say, can you please agree with this page.

Mr. WERFEL. Yeah.

Chairman ISSA. So we can expedite that. But more importantly, they can look through them for characters that they need, or characteristics they need, and ultimately in some cases, they may need to look at what you would give to us redacted. And we are working hand in hand with the Ways and Means Committee. So if you could consider that anything requested by this committee is, in fact, a carbon copy to the Ways and Means Committee, this wouldn't be subpoenas, of course, but voluntary stuff.

Mr. WERFEL. I understand. So in other words, you give us a data request, or an information request. We have to redact it from 6103. We get it to Chairman Camp, and potentially Senator Baucus earlier because they don't need the redacted versions.

Chairman ISSA. That's correct.

Mr. WERFEL. I understood the request.

Chairman ISSA. And I know that in some cases, they are not going to look at it immediately, but to the greatest extent possible, we would appreciate that. Go ahead, please.

Mr. WERFEL. I think—I understand the request. We are going to look into it, and then I will get back to you.

Chairman ISSA. Okay, and then, obviously, we would like to prioritize as much as possible, work with your staff to prioritize the documents we need sooner rather than later.

Mr. WERFEL. That's absolutely critical. That's really helpful to us, actually, to understand, for example, which people, what key search terms. The better clarity we have on that, the quicker the information starts flowing to you.

Chairman ISSA. I appreciate that, and I want to, once again, thank you, and Mr. Meadows is going to be recognized, but no, you are good? Okay. I'm not going to be—oh, you are good? Okay, then I'm closing subject to the ranking member. I want to thank you. This is a good start. It's a tough matter. I feel like you're, you know, coming in the day after we found tainted Tylenol and trying to bring back the reputation of a great pharmaceutical company.

In a sense, you are in that same situation. No doubt something bad happened. It didn't happen on your watch. We are not blaming you, but you are the person we are looking to to take immediate

and decisive action, and to the extent that you have so far, I want to personally thank you. Mr. Cummings.

Mr. CUMMINGS. I will be just extremely brief. I want to thank you, too. And as I tell my constituents, there are moments in life that are placed there to actually become a movement, a moment to a movement. And what I'm saying to you is, I think we have a moment here where we have seen so much that needs to be corrected, and now I'm just very pleased to see when you talked about those three points, the things that you are most concerned about, to turn that into a movement to make IRS a place where all Americans and their families can feel that trust. I mean, it's painful.

I know writing from my constituents, a lot of them don't have bank accounts. They are writing more money orders, or whatever. But when they send that check into IRS, or they get that letter about an audit, or whatever, that the people on the other side are going to treat them fairly and with courtesy, and that they can feel a level of confidence which they mustn't, and I thank you, and I thank the President for appointing you.

Chairman ISSA. Well, I want to thank the President for appointing you to an acting position. I think the ranking member and I would all note that we just got an appointment request for the GSA position that's been acting for a long time. And this committee, both with IGs, and with cabinet and subcabinet heads, certainly would make for the record that we like confirmed individuals, and not acting. But we will continue working with you. Hopefully, that will soon be changed. We stand adjourned.

[Whereupon, at 2:40 p.m., the committee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

DOBRELL E. ISSA, CALIFORNIA
CHAIRMAN

JOHN L. MICA, FLORIDA
MICHAEL E. TURNER, OHIO
JOHN J. DUNCAN, JR., TENNESSEE
PATRICK T. MCHEENRY, NORTH CAROLINA
JIM JORDAN, OHIO
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LAWRENCE J. BRADY
STAFF DIRECTOR

ONE HUNDRED THIRTEENTH CONGRESS

Congress of the United States
House of Representatives

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Opening Statement
Rep. Elijah E. Cummings, Ranking Member

**Hearing on "Collected and Wasted:
The IRS Spending Culture and Conference Abuses"**

June 6, 2013

Thank you, Mr. Chairman, for convening today's hearing to examine excessive spending by the IRS at a conference held in Anaheim, California in 2010.

I understand that this conference occurred three years ago. I am aware that many reforms were put in place so something like this will not happen again. And I know many examples we will discuss today—like the ridiculous Star Trek video—have been public for some time.

However, these facts do not lessen my frustration and anger at this utterly wasteful spending. Take the Star Trek video, for example. There is no redeeming value that I can identify in that video. It is not only a parody of a television show, but a parody of what many people unfairly think about federal workers.

And it cost \$50,000. Think about that. As a taxpayer, I am appalled. That's my money, that's your money, and it was wasted. In my district, I can tell you that \$50,000 is a huge amount for families who are struggling to get by. That's more than many households in this country bring home in a whole year.

Unfortunately, this was only part of a broader problem, which was the growth of IRS conference spending over the last decade.

The Inspector General's report finds that the IRS spent approximately \$48.6 million on conferences over the past three fiscal years, from 2010 to 2012. But the IRS spent far more than that in the three prior fiscal years, from 2007 to 2009, when the IRS spent an astonishing \$72 million on conferences. According to IRS spending data, the single largest increase in conference spending occurred between 2007 and 2008, when spending jumped by more than \$15 million in a single year.

This is unacceptable and unnecessary. It may be difficult to find any good news today, but at least there are some indications that things are beginning to change.

In 2011, after news broke about another wasteful conference held by the General Services Administration in Las Vegas, the President issued an executive order that significantly reduced travel and other expenditures across all federal agencies.

In 2012, the Office of Management and Budget directed all agencies to reduce their travel expenditures by 30% below their 2010 levels. OMB also required conferences costing more than \$100,000 to be approved at the Deputy Secretary level, and it prohibited conferences over \$500,000 without a waiver personally signed by the agency head.

As the result, the Inspector General's report explains that the IRS has now cut spending on conferences by 87% since 2010. Conference spending dropped to \$6.2 million in 2011 and to less than \$5 million in 2012.

I am also very encouraged by the actions of the new head of the IRS, Mr. Werfel, who is here with us today. He has been in his position for only two weeks, and he has already taken significant action to begin restoring the integrity of the IRS and holding people accountable. In fact, as news reports today highlight, he removed two IRS employees from their positions and placed them on administrative leave for their alleged actions at this 2010 conference.

Mr. Werfel has a critical job ahead of him. One of the most damaging aspects of incidents like the IRS conference in Anaheim or the GSA conference in Las Vegas is that they hurt the reputation of all government workers who commit their lives to public service. Mr. Chairman, I hope you will join me in offering our Committee's support as he works in the weeks and months ahead.

As I said at our last hearing on the IRS, we must dedicate ourselves to two goals: truth and trust. Both goals are key, and based on his actions to date, Mr. Werfel is working to achieve them.

Thank you, Mr. Chairman.

Contact: Jennifer Hoffman, Press Secretary, (202) 226-5181.

Statement of Congressman Gerald E. Connolly (VA-11)
Committee on Oversight and Government Reform
Collected and Wasted: The IRS Spending Culture and Conference Abuses
June 6, 2013

The Internal Revenue Service's (IRS) irresponsible spending on wasteful conferences and reckless videos is deplorable and inexcusable, plain and simple. Lavish spending on conferences and sophomoric training videos is a deep betrayal of IRS supporters fighting to secure adequate resources for the agency, a slap in the face to the many dedicated rank-and-file IRS employees who are careful stewards of taxpayer dollars, and an affront to the American taxpayer.

While I am certain that many of the conferences served legitimate purposes – indeed, even the August 2010 Small Business/Self-Employed (SB/SE) Division's Anaheim Conference that was the focus of the Treasury Inspector General for Tax Administration (TIGTA) audit featured legitimate training sessions conducted by TIGTA personnel, nevertheless, it is unacceptable that a beleaguered agency lacking the resources and capacity to effectively meet its ever-expanding core mission would prioritize even a single dollar, let alone tens of thousands of dollars, on keynote speakers of questionable value.

As a strong advocate for strengthening IRS resources on high return on investment enforcement activities that close the tax gap and lower our Nation's deficit, I am disgusted that the IRS spent \$49 million on 225 conferences held between fiscal years 2010 and 2012. According to IRS, **from fiscal year 2005 through 2009, the agency spent approximately \$101.6 million on conferences**, with the single largest increase of \$15 million occurring between fiscal years 2007 and 2008.

Merely charting the annual conference spending tells a troubling tale of an undisciplined organization that lacked internal controls, clear guidance, and plain common sense – until the Obama Administration instituted strict procedures to reign in conference spending through Executive Order 13589 and the Department of Treasury's Directive 12-70:

- FY 2005 -- \$9,825,673
- FY 2006 -- \$18,911,063
- FY 2007 -- \$13,395,634
- FY 2008 -- \$29,038,325
- FY 2009 -- \$30,451,011
- FY 2010 -- \$37,567,680
- **FY 2011 -- \$6,207,312**
- **FY 2012 -- \$4,856,807**

The TIGTA audit report that is the focus of today's hearing damages the agency's reputation and will carry long-lasting negative consequences.

Unfortunately, the steady stream of negative headlines highlighting stunning mismanagement all but guarantees that the IRS will not receive the resources it truly needs to fairly enforce our tax laws and provide the American people with the high quality customer service they deserve. I fear that after the sensational hearings come to a close, the ink dries on the final press release, and the cameras move on to the next big story, the enthusiasm in Congress for conducting serious and substantive bipartisan oversight of IRS reform efforts will vanish right along with them.

The bottom line is that the IRS workforce is massively overworked, poorly trained, and ineptly managed. Scandalous conference spending is a symptom of broader flaws in IRS management that manifest themselves in the agency's inability to develop clear guidance to help its personnel navigate an astoundingly complex tax code; ineffective response to escalating taxpayer threats, such as identity theft; and difficulty in simply providing decent, let alone excellent, customer service.

Fortunately, the incoming Acting IRS Commissioner, Daniel Werfel, is the right leader to successfully eliminate wasteful spending, having led government-wide efforts to curb conference expenditures in recent years that resulted in an 87 percent drop in this spending from 2010 to 2012. Further, as the chart above clearly demonstrates, the IRS itself has undergone a dramatic cultural transformation in the past two fiscal years, slashing the number of conferences from 152 in 2010 to 24 in 2012, which resulted in a spending cut of more than \$31 million from 2010 to 2012.

The reality is that for once, the IRS appears to be ahead of the Congress when it comes to proactively reforming its own operations and instituting a culture of thrift. It is our job to work with Treasury, IRS, and TIGTA to ensure the IRS – our Nation's accounts receivable department – emerges from this latest gross misstep fully renewed and reformed to fairly serve the American people with the honor and integrity they deserve.

-END-

**Opening Statement
Rep. Michelle Lujan Grisham**

**Committee on Oversight and Government Reform Hearing on “Collected and Wasted:
The IRS Spending Culture and Conference Abuses”**

June 6, 2013

I am deeply disturbed by the Treasury Inspector General for Tax Administration’s (TIGTA) report, which found that the IRS spent approximately \$48.6 million from 2010 to 2012 on conferences and at least \$4.1 million on a 2010 conference held in Anaheim, California. There was a severe lack of common sense among the organizers of the Anaheim conference. I do not understand how anyone could think that hotel room upgrades, a \$50,187 Star Trek themed video, and \$64,000 worth of promotional items given to IRS conference attendees were appropriate uses of hard-earned taxpayer dollars.

The IRS has made significant improvements to fix the problems associated with conference and travel spending and ensure that the type of conference held in Anaheim will never happen again. The IRS is in the process of implementing all of the TIGTA report’s nine recommendations, and has reduced conference spending by 87% over the past two years. The IRS has an obligation to efficiently and productively spend the money that America’s taxpayers entrust to them. New IRS Commissioner Danny Werfel has demonstrated a willingness to hold IRS employees accountable for their actions, and I look forward to working with Mr. Werfel to restore trust and accountability within the IRS.

However, I am concerned about the unintended consequences of new conference spending restrictions that the Office of Management and Budget (OMB) has imposed on all federal agencies. In 2012, OMB ordered federal agencies to reduce travel and conference expenses by 30 percent in fiscal year 2013, in response to a similarly wasteful General services Administration conference in 2010. OMB also capped the amount any agency can spend on a single meeting at \$500,000. I am especially concerned about how these restrictions impact our nation’s researchers, scientists, and engineers.

My district is home to Sandia National Laboratories and an Air Force Research Lab at Kirtland Air Force Base. The OMB restrictions can harm the ability of experts in these organizations to share knowledge and collaborate with other scientific and technical researchers in industry and academia. These interactions foster technological innovations and advancements, which create high-paying jobs and increase economic

growth. In testimony before a February 2013 hearing held by the Oversight and Government Reform Subcommittee on Federal Workforce, U.S. Postal Service, and the Census, Congressman Rush Holt stated that:

“Many of the insights that have driven our understanding of science forward in recent years have been possible only through the collaboration of dozens, hundreds, or even thousands of scientists scattered across the globe. ...The fact remains that many insights are possible only because of close, personal interactions among scientists who see each other regularly: those who do not work at the same university or laboratory must rely on interacting with each other at conferences. Proximity matters...”

There needs to be a balance: Congress must ensure that taxpayer money is used wisely while also ensuring that government employees are working collaboratively with industry and academia to promote innovation and discovery. Making these types of investments can help grow the economy and save money in the long run. I share Ranking Member Cumming’s desire to ensure that any legislation in this area appropriately balances the need for professional development and collaboration with the taxpayer’s best interests.

Thank you.

QFR Response to OGR Committee through Chairman Issa and Cong. Lankford

1. In addition to Donald Toda & Fred Schindler, who were the other 16 people who attended a confidential reception on Aug. 25 during the Anaheim conference?

Response: Donald Toda did not attend the reception. The attendees included: Fred Schindler, Cindy Pennington, Michele Alvarado, David Chapman, Diana Estey, Jackie Greening, Bill Holmes, Ken Marek, Ron Matthews, Mike Mullin, Gloria Orozco, Rocco Stecco, and Duane Thomas.

2. Was it more or less than 18 total?

Response: We have confirmed that 13 people attended.

3. Are you familiar with any other senior-level or any of the management-level IRS officials that were there at this reception?

Response: The attendee names are listed above. We do not believe there were any Senior Executive Service level officials at the meeting aside from Mr. Schindler and Mr. Holmes; however, the attendees included managers.

4. How were people invited to the reception?

Response: Based on information provided by Mr. Schindler, he may have invited people to attend at a staff meeting prior to the conference. It appears others were invited by Mr. Schindler's Staff Assistant, either by email or in person.

5. What was the purpose of the reception?

Response: Based on information provided by Mr. Schindler, the reception provided an opportunity to recognize the accomplishments of team members in a small setting.

As we are going through outstanding hearing items, we found a request from Chairman Issa at a June 6 hearing to which I'm not sure we ever responded. Chairman Issa requested clarification on whether someone could be fired for refusing to answer questions of the United States Congress related to a matter at the IRS?

The Rules of Conduct for Treasury Employees, found at 31 C.F.R. § 0.207, state that "[e]mployees shall respond to questions truthfully ... concerning matters of official interest when directed to do so by competent Treasury authority." Questions from Congress to IRS employees regarding an IRS matter would be a matter of official interest and the IRS would direct IRS employees to truthfully respond to such questions. An employee who refused in accordance with those directions would be subject to discipline, up to and including termination from employment.

Even though employees are required to respond to questions asked in a matter of official interest and are subject to discipline for refusing to do so, employees still are able to appropriately exercise their constitutional rights against self incrimination. As such, a federal employee cannot be terminated from employment for appropriately invoking the constitutional right to remain silent.

Again, I'm sorry for the lengthy delay in responding. If I may be of additional assistance, please let me know.

IRS Legislative Affairs

**Questions for the Record from Wage & Investment
Representative McHenry
House Oversight and Government Reform Committee
June 6, 2013 Hearing on “Collected and Wasted: The IRS Spending Culture and
Conference Abuses”**

Questions Submitted by Congressman Patrick McHenry (R-NC)

McHenry Question #1

Please provide all documents and communications referring or relating to a Real Time Tax system.

In 2011, then-Commissioner Shulman announced a “Real Time Tax Initiative”. The initiative was to gather feedback on a vision in which the IRS would move away from the traditional “look back” model of compliance to a “real time” tax process. Under this vision, the IRS could embed more information return data into its pre-screening filters and could provide the opportunity for taxpayers to fix the return before it accepts it – if the return contains data that does not match the IRS’ records. Documents pertaining to this initiative are located at irs.gov/Tax-Professionals/Real-Time-Tax-Initiative. This effort was never envisioned as a system to create pre-filled forms or Ready Return-like system. Furthermore, the IRS has not pursued, is not pursuing and has no plans to implement a real time tax system to create a pre-filled or simple tax return program.

McHenry Question # 2

Please provide a full and complete explanation regarding any IRS efforts related to Real Time Tax system and/or any other software or products that would allow the IRS to do tax preparation for the American public.

IRS staff explored the Commissioner’s “Real Time Tax” concept with stakeholders in 2011 and 2012, in particular discussing how information returns might be used to verify tax return data when the tax return is filed and before IRS accepts the return. IRS Real Time Tax exploration concluded in 2013. In our day-to-day work of administering the tax code, we continue to consider opportunities to accelerate the use of available data to increase tax administration efficiency and reduce taxpayer burden through faster error identification and resolution.

Pre-filled forms or software/products for simple tax return preparation by the IRS were not part of the Real Time Tax concept. The IRS is not pursuing and has no plans to implement a system to create a pre-filled form or software/products for simple tax return preparation.

McHenry Question # 3

Additionally, please identify any and all resources (IRS divisions, number of staffers, names of contractors, dollar amounts, etc.) used at any time by the IRS for efforts related to a Real Time Tax system (or any system similar in use and objective).

The Deputy Chief Information Officer, Strategy and Modernization, the Deputy Commissioner of the Wage and Investment Division, and the Director of Wage and Investment Business Modernization Office led an ad hoc team to explore the earlier use of available information return data during 2011-2013, which then-Commissioner Shulman referred to as “Real Time

**Questions for the Record from Wage & Investment
Representative McHenry
House Oversight and Government Reform Committee
June 6, 2013 Hearing on "Collected and Wasted: The IRS Spending Culture and
Conference Abuses"**

Tax." This is a very different concept than creating a pre-filled form or software/products for simple tax return preparation, which is often referred to as a Real Time Tax system, and which the IRS is not pursuing nor has any plans to implement. The team included approximately ten employees that developed and refined a working vision statement and identified a preliminary set of business focus areas. Contractor support was provided by Booz Allen Hamilton and Accenture. The total contract costs were approximately \$3.54 million.

McHenry Question # 4

Has the IRS dedicated any funds to any efforts related to a Real Time Tax system? If so, please identify and explain any and all funding expended on the Real Time Tax system.

Currently, the IRS is not pursuing and has no plans to implement a Real Time Tax system to create pre-filled forms or software/products for simple tax return preparation. Please see question #3 for funding expended on the exploratory effort to improve IRS use of available data for improved tax administration, which then-Commissioner Shulman referred to as "Real Time Tax".

McHenry Question #5

Under what authority or legal jurisdiction (or justification) has the IRS proceeded with work related to a Real Time Tax system, or any system similar in operation and/or objective, while recognizing congressional denial of such usage?

The IRS is not pursuing and has no plans to implement a Real Time Tax system to create pre-filled forms or software/products for simple tax return preparation. IRS exploration during 2011-2013 of earlier use of available data complies with the U.S. House of Representatives Committee on Appropriations statement (House Report 112-550) that the IRS should not pursue a simple tax return program.

Mr. LANKFORD: The question remains do you know right now who are the other 18 -- the other 16 people that were involved in that?

Response: We have confirmed that 13 people attended. The attendees included: Fred Schindler, Cindy Pennington, Michele Alvarado, David Chapman, Diana Estey, Jackie Greening, Bill Holmes, Ken Marek, Ron Matthews, Mike Mullin, Gloria Orozco, Rocco Stecco, and Duane Thomas.

Mr. LANKFORD: We don't see any kind of tracking how the invitation was done, and we're still trying to determine who was invited and how were they invited to this. Are you aware how that happened?

Response: Based on information provided by Mr. Schindler, he may have invited people to attend at a staff meeting prior to the conference. It appears others were invited by Mr. Schindler's Staff Assistant, either by email or in person.