

S. HRG. 108-305

NOMINATION OF HON. MARK W. EVERSON

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

ON THE

NOMINATION OF

**HON. MARK W. EVERSON, TO BE COMMISSIONER,
INTERNAL REVENUE SERVICE**

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MARCH 18, 2003
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**NOMINATION OF MARK W. EVERSON, TO BE
COMMISSIONER, INTERNAL REVENUE SERVICE**

TUESDAY, MARCH 18, 2003

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

The hearing was convened, pursuant to notice, at 10:03 a.m., in room 215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the committee) presiding.

Also present: Senators Baucus and Lincoln.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. We meet today to consider the nomination of Mr. Mark Everson, to be Commissioner of the Internal Revenue Service. Mr. Everson currently serves as Deputy Director for Management of OMB.

His career has been one of significant business experience, together with several years of public service. I would note that he started his career as an auditor.

We now consider him for Commissioner of the IRS. Obviously, the Commissioner is an important job that directly touches every single taxpayer in this Nation.

Mr. Everson benefits from following Charles Rosotti, who served ably, I believe, as Commissioner of the IRS. However, while Mr. Rosotti was an effective Commissioner, it is clear that it unfortunately will take years for the IRS to provide first-rate customer service, as well as an appropriate enforcement presence that respects taxpayers' rights.

So the baton has passed to you, Mr. Everson, in what will be a long run. I do not know if we will finish during your 5 years as Commissioner, but it is on you to ensure that we are much further down the road at the end of that term.

Let me be clear. The Finance Committee expects progress in modernization, customer rights and enforcement, while protecting taxpayers' rights. We will work with you to smooth the path for you.

However, you can be certain that we will not be shy about letting you know about problems that we see at the IRS, and we would expect you to be responsive to the concerns of the Finance Committee. That said, I commend you for wanting to serve your country in a very challenging job.

Before Senator Baucus gives his remarks, I am going to go to a meeting of our leadership at this point. Senator Baucus is going to conduct the meeting and ask the normal questions that we would ask of every nominee, plus his own questions.

Then, if other members have not come to ask you questions, I would ask if you would just wait in recess for me to come back and have my questions of you.

Would you do that, please?

Mr. EVERSON. Yes.

The CHAIRMAN. Thank you very much.

Thank you for cooperating with us on this matter and chairing the committee. Thank you very much.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Everson, I also welcome you. I welcome your family and your friends to the committee. At this point, would you mind introducing your family, if they are here with you?

Mr. EVERSON. Certainly I can do that, Senator. My wife, Nanette is here next to me. We have been married for 18 years. And our daughter, Emma, is right next to her.

Senator BAUCUS. Super. Welcome, all of you. As you well know, public service is a sacrifice not only of the person who serves, but also the family that serves, too. So, we thank you all as a team for making this opportunity to serve our country. We thank you.

Mr. EVERSON. We hear that frequently from Emma and her brother Leonard, who is not here today. He is away at military school and he has got mid-term exams. So, we thought that was a higher priority.

**OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR
FROM MONTANA**

Senator BAUCUS. I also congratulate you, Mr. Everson, for being selected by the President to serve as the 46th Commissioner of the Internal Revenue Service. Since the office of Commissioner of Internal Revenue was created in 1862, there have been five Commissioners from the State of New York. Mr. Everson, you would be the sixth.

William Orton served 4 months in 1865. Alfred Pleasanton served 8 months in 1871. Joseph Noonan, Jr. served 3 years and 4 months around World War II. Justin Winkle served as Acting Commissioner for 14 days in 1953.

Former Commissioner Charles Rosotti was the fifth native of New York to serve as Commissioner. Thankfully, he served longer than the previous four Commissioners from New York combined.

He was also the first to serve under the 5-year term enacted as part of the 1998 IRS Restructuring and Reform Act. Prior to the act, the average tenure of an IRS Commissioner was under 3 years.

The 5-year term is important to the IRS, to Congress, and to the American taxpayer. Creating a term of 5 years is one of the key improvements made in 1998. It was designed to make the position less political and more accountable.

In everyone's judgment, it is the continuity of leadership at the IRS that will help the agency become more efficient, more responsive, and more respected. If you are confirmed, I expect you to ful-

fill the 5-year term. This commitment is not to be taken lightly, because continuity is critical.

There is also a critical need to stay the course. New Commissioners have a tendency to want to put their own stamp on the agency, reconfigure operations, change directions, reprioritize issues, and move personnel.

But continued reorganization is, of itself, not progress. The 1998 Act provided the IRS with a long-term road map, a plan for moving the agency into the 21st century.

Commissioner Rosotti was brought in to implement the plan, the most sweeping change to the IRS in 50 years. Under his leadership, the agency now has a new mission statement, a new organizational structure, a new strategic plan, and a new senior management team.

Commissioner Rosotti pulled the IRS wagon out of the ditch and he has headed it in the right direction. The Nation has been well served by his efforts.

Unfortunately, the IRS wagon carries a heavy load and is prone to being stuck in the mud. Mr. Everson, your job is to keep the wagon on course and out of the mud. Consistency is critical.

Five years ago, Congress and the administration worked together to bring about changes at the IRS. Promises were made to the American taxpayer regarding the IRS's antiquated computer systems, customer service, and enforcement.

I intend to use today's hearing to examine the progress, or lack thereof, in fulfilling these three promises. First, while improvements have been made, the IRS is still in the technological Dark Ages. We understand that only two major projects have been completed, with the others having delays and cost overruns.

I realize that Commissioner Rosotti said it would take 10 years to complete the modernization projects, but Congress expected that more would be accomplished, on the technology front, at least, during his tenure.

I would like to know whether the modernization effort will be complete during your 5-year tenure. I would also like to hear how you intend to keep systems modernization on track and make it a reality.

Second, it is troubling that enforcement statistics have dramatically declined. When Commissioner Rosotti departed, he pointed out that the IRS does not have the resources to pursue identified tax debtors and cheats.

I applaud his frankness. The numbers provided in his report to the Oversight Board last November are staggering, and I know you know them. Sixty percent of identified tax debts are not pursued. Sixty percent of identified tax debts are not pursued.

Seventy-five percent of taxpayers who did not file a tax return are not pursued. Seventy-five percent of taxpayers who did not file a tax return are not pursued.

Seventy-nine percent of identified taxpayers who use abusive devices, that is, offshore accounts, to evade tax are not pursued. Seventy-nine percent of identified taxpayers who use abusive devices, that is, offshore accounts, to evade tax are not pursued.

Fifty-six percent of identified taxpayers with incomes of \$100,000 or more and under-report tax are not pursued. Fifty-six percent of

identified taxpayers with incomes over \$100,000 and under-report tax are not pursued. Seventy-eight percent of partnerships and similar document matching are not pursued.

Honest taxpayers should not have to wonder whether the tax collector can keep up with tax cheats. I would like to hear how you plan to address deliberate tax cheating. How do you intend to restore a credible enforcement presence at the IRS?

Third, when Congress passed the 1998 Act we had a vision for a restructured IRS. We want IRS representatives to have timely computer access to tax information so taxpayer assistance is quick, so it is accurate.

We want to reduce the paperwork and have more taxpayers filing electronically. We want honest taxpayers to be treated with respect. We want tax cheats brought to justice.

I would like to hear how you plan to bring this shared vision into reality. Modernization and taxpayer service are critical.

Mr. Everson, being IRS Commissioner is one of the most demanding jobs in government. There are many challenges ahead. Taxpayers want a modern, professional agency. They are entitled to a first-rate service. They expect the IRS to ensure that everyone is paying their fair share.

I am committed to working with you and I know I can speak on behalf of all members of the committee, as well as the Senate and Congress, for that matter, in working with you to help the IRS meet the expectations of America's taxpayers, as well as the expectations of the Congress. I encourage you and the administration to work with us, and look forward to hearing from you.

Why do you not proceed, Mr. Everson, with any statements you might have at this point.

STATEMENT OF HON. MARK W. EVERSON, NOMINATED TO BE COMMISSIONER, INTERNAL REVENUE SERVICE, WASHINGTON, DC

Mr. EVERSON. Thank you, Senator.

As you know, I am Mark Everson, and I currently serve as the Deputy Director for Management at the Office of Management and Budget.

It is an honor for me to be before the committee today as you consider my nomination for the position of Commissioner of Internal Revenue.

Before taking your questions, I do appreciate the opportunity to touch upon two subjects. One, why I want the post for which you are considering me today, and second, a brief summary of the areas that I would expect to emphasize most should I be confirmed as Commissioner during my tenure.

The foundation of my interest in becoming Commissioner of Internal Revenue is a deep appreciation for the importance of public service. In fact, commitment to public service is a value shared with my wife Nanette, who is with me here today, but also serves in government as a member of the White House Counsel's office, where she oversees the ethics portfolio. Like me, she served before in the Reagan days as well.

Public service, as you said, is demanding, particularly for the family. I am thankful for Nanette's love and support, as well as

that of Emma, who is here this morning, and our son Leonard, as I indicated, who cannot be with us today.

Our government provides a myriad of programs and services to its citizens, from defending the homeland to creating educational opportunities for our young, and protecting the environment for the future. Virtually all of the revenues which fund these programs are collected by the Internal Revenue Service.

That, in and of itself, makes the Internal Revenue Service a core element of our government. But the fact that the IRS interacts with so many individuals—in fact, more than any other agency—makes the Service an important face of our government to its citizenry.

The Internal Revenue Service needs to serve taxpayers in a manner which facilitates their voluntary compliance with our system of taxation. Moreover, a properly functioning IRS increases our citizens' respect for government institutions as a whole. Viewed from this perspective, it is central to maintaining our democracy.

If confirmed as Commissioner, it will be a great honor to lead the Service's many dedicated employees as they perform this essential work.

The IRS reforms which the Congress enacted nearly 5 years ago have proven sound. I believe my first task, if confirmed as Commissioner, will be to reinforce and build upon the excellent work of Charles Rosotti.

I am convinced the IRS has made great strides in the last several years in enhancing service to taxpayers. But, as you know, and as members of the committee have often stated, much remains to be done.

In order to realize the full benefits of the 1998 Reform Act, line managers and employees at all levels of the organization must fully embrace the changes which began under Commissioner Rosotti. All should understand that the agency will stay the course in organizing around lines of business designed to better serve the taxpayer.

A second area of emphasis will be continued modernization. If confirmed, I will work to support the information technology modernization efforts which have been under way for some years. Their success is badly needed in order to establish a more efficient and effective IRS.

I would add that the information technology modernization program must be supplemented with other business process improvements which will allow the IRS to redirect scarce resources to operational priorities.

A third area of focus, should I be confirmed as Commissioner, will be to strengthen the integrity of the Nation's tax system through enhanced enforcement activities. The IRS must deter those who might be inclined to evade their legal tax obligations and appropriately pursue those who actually do so.

A substantive element of proper enforcement posture will be closer work with practitioners. There are clear indications that professional standards have eroded in some corners of the practitioner community. Attorneys and accountants should be pillars of our system of taxation, not the architects of its circumvention.

Let me close by saying that, as I have already indicated, I believe it is always an honor to serve in government. However, I think it is a distinct privilege to be nominated by the President and to be considered by the Senate to serve at this time in our Nation's history when the stakes of having an effective government are so high.

I know this committee has a deep interest in the affairs of the Internal Revenue Service, including the issues that you and I have just mentioned.

If confirmed, I look forward to working with Senators on both sides of the aisle. I will do my utmost to successfully carry out the responsibilities entrusted to me as Commissioner.

Thank you. I will be happy to answer any of your questions.

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

Senator BAUCUS. Thank you, Mr. Everson. I will start out with asking three customary questions that we ask all nominees.

Mr. EVERSON. Certainly.

Senator BAUCUS. And I will ask you to respond to each of these questions separately.

First, is there anything you are aware of in your background that might present a conflict of interest with the duties of the office to which you have been nominated?

Mr. EVERSON. No, sir, there is not.

Senator BAUCUS. Second, do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated?

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

Senator BAUCUS. Third, do you agree without reservation to respond to any reasonable summons to appear and testify before any duly-constituted committee of Congress, if you are confirmed?

Mr. EVERSON. Yes, sir, I do.

Senator BAUCUS. All three of those questions, Mr. Everson, as you know, are extremely important. I might say, though, that I want to particularly emphasize the last question.

Last week, Under Secretary Peter Fisher's failure to appear before the Finance Committee directly contradicted his response to the very same question you were just asked. So, your response to these questions should not be perfunctory. That is, they are real.

Mr. EVERSON. Yes.

Senator BAUCUS. They should be given great weight and backed up with true commitment. I do emphasize the importance of administration officials responding to Congress when asked specific questions.

I recognize this is not your fault, but your current boss, Mitch Daniels, has given, frankly, me an unacceptable brush-off. I have asked questions as to why people are not appearing and got just that, a brush-off, which I think is disrespectful to this committee, it is disrespectful to the Congress. It is not a way for any respectable administration to operate.

So, I again ask you those three questions, particularly the last question. Do you want me to ask you again, or do you say you will appear?

Mr. EVERSON. No, I stand by the first answers. Senator, I will do my utmost to work with you and be responsive.

Senator BAUCUS. I agree. Let me read it so you know clearly what it said.

Mr. EVERSON. Yes.

Senator BAUCUS. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly-constituted committee of Congress, if you are confirmed?

Mr. EVERSON. Yes, Senator, I do.

Senator BAUCUS. Thank you. Thank you very much.

When you started out, Mr. Everson, you started to say why you wanted the job, and second, what you hope to accomplish. It sounded to me like they were somewhat the same. One, you want to build on Commissioner Rosotti's efforts. Second, you want to modernize the IRS. Third, you would like enhanced enforcement of the basic three. Did I get that correctly?

Mr. EVERSON. That is it, sir.

Senator BAUCUS. What is it that Mr. Rosotti did that you would like to build upon?

Mr. EVERSON. I think that the Reform Act and what the Commissioner executed was fundamentally sound, as I have indicated. The realignment of the Service into the four large business units where everybody is working to make sure they are addressing the appropriate area of expertise, and they are looking to provide better service and better enforcement within, be it large and mid-sized businesses, or the wage and investment community. I think that was a sound decision. He got that done. What I have indicated, is there still is more to be done.

The indications I have received from others, including Commissioner Rosotti—I have been very fortunate. He has been very generous with his time. I spent two and a half hours with him a couple of weeks ago, and had follow-up phone conversations—is that those changes have to be owned at the mid- and lower levels of the Service. That process, because it was such a big change, that has not been completed. So, I think that that is a first task for me.

Senator BAUCUS. How do you plan to get the modernization program completed? Because I think you will agree, the technology at the Service is, at the very least, backwards. It is behind the times. It is not up to date. It is very hard to get good enforcement if you do not have good technology.

Mr. EVERSON. I agree with that entirely. As you know, the business systems modernization is one of the four high-risk areas which GAO has identified at IRS. IRS has four of the two dozen government-wide high-risk areas. Only the Defense Department has more. So, it is part of a lot of the management issues that have to be addressed.

Senator BAUCUS. And risk in what sense?

Mr. EVERSON. High-risk. The GAO, every 2 years, identifies high-risk areas from a control point of view and from a delivery of operations. It is everything from DOD financial management to business systems modernization at IRS.

They look at different pieces of the government and they say, what is material enough so that the U.S. citizen and taxpayer ought to worry about it? They said there are four areas at IRS that

fall into that category. If you think about it, that is an awful lot for one agency. So, they are all there. They have recognized there are a lot of issues, and this is one of them, business systems modernization.

I feel fortunate, however, that having been said, a lot of projects have been launched. It is very complicated. As GAO has indicated, one of the problems is that so many things has been launched, it has become very complex.

But I feel fortunate that there are a couple of major deliverables this summer, which would be early into my tenure, if confirmed, where they are going to roll out the first real application of this updating the master files, the outdated technology that goes all the way back to the 1960's.

There is a deliverable this summer, this July and August, which, if it goes well, I think it will be an indication to me that finally, maybe, the Service has turned the corner and the prime contractor has been able to deliver something.

Senator BAUCUS. I am sorry, I missed those. What would they be, those this summer?

Mr. EVERSON. It is a roll-out of something, which is the 1040 EZ filing, which will be the first time you will have the new technology instead of the old tape files that have been in existence since the 1960's.

So this is really a very first large deliverable. It is behind schedule. It has been difficult, but it is sort of a moment of truth, if you will, for me coming in.

I am thankful, frankly, Senator, that it is taking place this summer rather than next March, and that I do not have to wait until next March or 2004 to get an indication of, is there now finally real progress, because, as you indicated, some of the other things have not happened yet.

Senator BAUCUS. And the other deliverable this summer?

Mr. EVERSON. Oh, there are a whole series of them. There is one in October which is on the internal finance system for the IRS, which is also important.

Senator BAUCUS. And what is that called? Does it have a name?

Mr. EVERSON. IRF, I think it is. Internal Revenue Finance System. I am not quite sure what the acronym is.

Senator BAUCUS. You mentioned that GAO outlined a lot of the various different components of modernization and suggested perhaps, not that there were too many, but that there were a large number, a good number. Could you tell me the main components of the modernization?

Mr. EVERSON. Well, I think that the first one that is probably the most important is updating the business systems through these master files. The ability to retrieve the information instead of having it batched, as I understand it, on a weekly basis so that you cannot retrieve customer account information.

If you call in to an IRS service center and you are referring to someone, they are not really giving you online, live information. It is information from a week ago. So you cannot manipulate and use the data, have the linkages that you need to have. So that is one whole area, of which there are many aspects.

Another additional area is, as I indicated, what I would say the internal systems, the human resource systems, the financial management systems. That is what I would say is sort of a second major block.

Then there is, of course, providing greater access to the taxpayers. You have had the e-filing, which has been working more. There is a lot of automation, if you will, in the call centers where there have been significant improvements in recent years, the ability to route calls to people who understand the relevant sections of the tax law codes, and then can answer a taxpayer's question.

So those are, I would say, really three pieces that I would consider the most important. The filing, being able to have the accurate information, the internal financial and human resources management, and then just the interface with the public on the phones, the e-filing, and the Service just rolled out something where an individual can check the status of their refund online. So, that is a good thing.

Senator BAUCUS. Now, among all those, are there any that are of higher priority than others or do you push them all at the same intensity and emphasis?

Mr. EVERSON. That is a tough question. I am not sure that I have a detailed answer to that. Clearly, you have to make progress on the business side, for two reasons. One, you need to update those files to be more effective and efficient. Frankly, the other thing is, the people who have known about that technology, they are aging.

I was joking the other day. I do not know if you saw the movie "Space Cowboy," where they sent Clint Eastwood into outer space with Robert Duvall, I think, and a couple of old guys, because they were the only ones who could fix some problem they had with a space satellite.

Well, it is a little bit that way at the IRS. They are running on technology that is 40 years old, so you have got a human capital issue as well there. You need to get this working, and I think that is probably the first.

Senator BAUCUS. So when do you think the new technology will be up to snuff? I mean, you will have the appropriate technology by when, what date?

Mr. EVERSON. I think I will be able to better tell you that after the deliverables are achieved or not later this summer, because there are a series of other roll-outs that the Service has in mind that will take place.

They are scheduled for 2003, 2004, and 2005. But none of these deliverables has been met on time, is my understanding. They have all been delayed. So this, in and of itself, for the 1040 EZ, is actually delayed from what been thought initially would be the case. So I will be able to tell you more, I would say, Senator, in the fall, probably.

Senator BAUCUS. Can you give me a rough, gut sense today?

Mr. EVERSON. My rough, gut sense is that, as Senator Grassley said, this is going to take the full four or 5 years that I would be Commissioner, and perhaps longer, to complete that work. I think the program does go out four or 5 years.

Senator BAUCUS. Are there any areas in the modernization program that you are aware of at this point which you think should be modified? Any changes?

Mr. EVERSON. I do not have a direct impression at this stage on that. Let me just say what GAO said on this. It said, "The challenge for IRS is to make sure the pace of systems acquisition projects does not exceed the agency's ability to manage them effectively."

I agree with that. I am going to very clearly take a look once I get in there, if confirmed, and make sure that things are being sequenced intelligently and in a way where the work can actually be achieved.

Senator BAUCUS. What are the consequences to the Service or to taxpayers to the degree to which the Service delays implementation? If you could just outline what some of the consequences are for me.

Mr. EVERSON. I will tell you one. There is increasing risk. One of the other areas that the GAO has indicated as risk is in the financial management area, and part of this is computer security. You get an opportunity to increase your computer security as you roll out new technology, in many instances, so there is a security risk that is important to consider.

Second, there is an imbedded cost structure. Right now, the Service spends over \$1.5 billion a year, largely on technology that is independent of the \$400 million-plus that is being spent on the modernization effort, as to day to day keeping these old computer systems running, the legacy systems.

You cannot free up any of those resources until you have migrated to the new technology, so you have got that imbedded cost that could be used more effectively on enforcement or other areas without increasing the appropriated cost. So you have got an opportunity cost that is very real as well through the delay.

Senator BAUCUS. So you are essentially saying that there are costs by moving too quickly, but there are costs by moving too slowly, too.

Mr. EVERSON. I think that is exactly right. It is a fine line. You have got to do this correctly. You have got to sequence it correctly. It has got to be in areas that are truly value added. But you cannot just sort of indefinitely delay it.

My own experience with government IT projects compared to private sector IT projects is that there are three elements here. There is cost, there is timing, and there is functionality.

My private sector experience in this area is that it is very hard to get the cost right, but that frequently, almost always, you can get the functionality and the timing. In government, somehow, all three get compromised again and again.

One of the things that I would do in the Service to try and make sure that we have got it correct, is to make sure there is the right business ownership, the right people who are in these business units are holding the IT people accountable, because one of my observations since coming back into government has been that the people who are doing these projects are oftentimes a lot more isolated, if you will, from the business leaders than is the case in the private sector.

Senator BAUCUS. What do you think is the key to modernization on time? What is the key? What does it come down to?

Mr. EVERSON. I think it comes down to leadership. There will be a new CIO that has yet to be identified. That is a very important function. Then, second, as I just indicated, you of course need to have good contractors working in this area, but you cannot be overly dependent on your contractors.

You cannot just turn this over to the contractors and tell them to do it, you have to have business ownership. The folks who understand the processes and the needs of the IRS have to be the ones who are setting the standards with the vendors and the contractors.

Senator BAUCUS. I agree with that, and I appreciate that response. I would slightly modify that in saying that you need personal ownership and you have got to drive this thing.

You have to delegate to a considerable degree, but a lot of this, in my judgment, cannot be delegated. You are going to have to just be on top of this, because otherwise it is going to tend to drag on, and drag on, and drag on, and people are going to find reasons to not stay on time.

Mr. EVERSON. Senator, I agree with that entirely, which is why I said that I think modernization is one of the three principal priorities. I share your view on that.

Senator BAUCUS. I would like you to address those statistics I mentioned. What is behind them? Why are they there? Why are we doing so poorly? What is the main reason?

Mr. EVERSON. When I look back at what happened to the Service, as I best understand it, and then I look at what the Congress did with the Reform Act and what Charles Rosotti did as he ran the Service—and as I said, I think he did an outstanding job—I sort of liken this—I think maybe I said this to you when I visited your office—as to somewhat a doctor who is in the emergency room and he has got a patient that has prostate cancer, but at the same time the same patient has a gunshot wound. Well, the IRS had a gunshot wound, which was its image with the public and its inability to provide adequate service.

The Congress addressed that through the reforms, and that is what Charles worked on and he did the right thing. But at the same time, as he used all that energy to reorganize the Service and to launch it in a direction, inevitably to some degree, even within the Service, attention to enforcement, it languished and some of the resources were rededicated, as you know, to the service side to make sure that this reorganization was effective.

At the same time, as I have indicated in my statement, I do think there was, in the practitioner and other communities, some erosion of professional standards and that people ran yellow or red lights that they should not have run. So, you had two things happening at the same time.

Senator BAUCUS. What can be done about it? What are some of the concrete steps you plan to take to address, let us say, first, just enforcement? We will get to the lack of ethics in the accounting profession separately. But just in terms of enforcement. They do go somewhat hand in hand, I know. But, nevertheless, what are some of the concrete steps you can take?

Mr. EVERSON. I think the first, and most important thing that I can do should I become Commissioner, is to reemphasize the importance of it. Commissioner Rosotti did that at the end of his term.

But the report that you referenced to the Oversight Board, that was a document that was presented as he left. So, the Service needs the message, not from him, but from the new guy, that enforcement will be a principal responsibility of the IRS. I think that is what they are waiting to hear.

I believe that just that message, that should I become Commissioner that I will track that and follow that and expect enhanced efforts, just as I will in the modernization program, as you have indicated, and the continuation of the service side, I think that, in and of itself, will really help.

I think that there are other issues to be addressed. I know that the administration sent forward last year some potential changes on the 10 deadly sins, the standards that were articulated in the Reform Act but some feel, at least, may have prompted some Service employees to be less vigorous in addressing some of the enforcement issues.

And then there is, of course, a question of resources. As you know, the President's budget does request a real increase in resources for the 2004 fiscal year, and that is targeted by the Service and the administration for enforcement resources.

Senator BAUCUS. Do you know how much that is, by chance?

Mr. EVERSON. Yes. There are really two principal components for the increase in the enforcement. One, is \$173 million for general enforcement, high-end taxpayers, a couple thousand FTEs.

Then, as you know, a second area that GAO has identified as high risk is also the EITC program, where there is about a 30 percent erroneous payments rate, so there are additional monies that are provided there, \$100 million, and 650 FTEs to try and strengthen compliance in that program.

Senator BAUCUS. I have just one more question, then I will turn it over to the Senator from Arkansas. That is, there are various categories of insufficient enforcement. Could you name those, and how do you characterize the categories? Then I have a comment on that, please.

I mean, there is the wealthy, there is the less wealthy, there is offshore, there is corporate, there is individual. I am just curious how you categorize on enforcement.

Mr. EVERSON. I think that there are enforcement issues in each of the four lines of business. In the wage and investment area, there is just non-filing. Non-filing is an issue, as you mentioned.

The wage and investment portion of the line of business is largely those who generating income where it is easy to verify through third party documentation. In the small business self-employed arena, there are high-end taxpayers that are obscuring income and the offshore credit cards, the other areas that you are familiar with, or some of the tax shelters that are abusive. They are imbedded there.

Then there are elements in the corporate environment that are significant as well that are well understood. I know this committee

took direct interest and spoke about matters at Enron recently. So, I think that they are in a number of different places, Senator.

They even extend to the work of the tax exempt unit through the charities. As you know, there is a nexus here with terrorism, that sometimes people are abusing the provisions of the Tax Code that pertain to charities that actually fund terrorist organizations.

So, there are important elements in all of the lines of the IRS that require attention. Yes, they require a prioritization as to where the greatest effort should be made, but I am under the impression, from my discussions with Bob Wentzel and others, that efforts are being made in all these areas.

Senator BAUCUS. All right. Thank you very much. I will have some more questions.

The Senator from Arkansas?

Senator LINCOLN. Thank you, Mr. Chairman.

Senator BAUCUS. Well, acting.

Senator LINCOLN. Acting. That is great.

From the last question there, are there any numbers that indicate to us the actual loss of revenue? I mean, you mentioned the EITC and the 30 percent in the same breath that you mentioned the high-end corporate loopholes and the abuses of the Tax Code from that end. Are there any numbers that indicate the loss of revenue from either of those?

Mr. EVERSON. Senator, there are, but I think the numbers actually are highly suspect. The Service's last estimate, based on the tax year 1998, is something called a tax gap.

That indicates that in these areas of non-filing, under-reporting, and under-payment, that the aggregate number is somewhere around \$280 billion, of which maybe \$50 billion would be collected over time by the Service, so a net effect of \$230 billion. But I think there is a real skepticism towards those numbers.

Senator LINCOLN. You are saying, the \$280 billion is collectively from both the EITC abuse and the corporate abuse?

Mr. EVERSON. The EITC is in there, but that is a small piece of that. That is \$8, 9 or 10 billion, is what the last GAO report indicated.

But those numbers are highly suspect. They are based, in part, on analyses the Service has done based on research programs that were done 15 years ago. Right now, one of the things that the Service has undertaken which is good and will help us size some of the dimensions of the true problem, is they have launched something called a National Research Program.

The first phase of that is already under way, working with individual taxpayers. But I am informed that a follow on component of this will be to look at corporate and other returns and elements.

Senator LINCOLN. When you say they are suspect, do you think they are greater?

Mr. EVERSON. I think they may very well be. It is very hard to size what is behind the curtain because people are trying to obscure what is behind the curtain.

Senator LINCOLN. Sure.

Mr. EVERSON. So this is a tough area to identify all the different strands.

Senator LINCOLN. But the EITC is only a very minor part.

Mr. EVERSON. That is a small piece of it. That is right.

Senator LINCOLN. The IRS Reform and Restructuring Act of 1998, I think, specifically prohibited the IRS employees from being evaluated on the amount of taxes that they collect, so Congress felt that really evaluating employees on tax collection success promoted somewhat overly aggressive collection techniques on behalf of the IRS employees.

Can you explain, under the President's proposal allowing collection agencies to essentially work on a commission basis, does that not really fly in the face of this policy?

Mr. EVERSON. I do not think it does, Senator. What the Service has done, is it has taken a look at a very targeted area. It is about \$13 billion of taxes that are owed and agreed to.

These are monies that the taxpayers themselves have either indicated on their return, or agreed to in some process that they owe. The Service has made a proposal, is making a proposal, that those balances could be referred out to private collection agencies.

Right now, 42 different States already employ private collection agencies. It is used in the Federal Government very effectively, for instance, on student loans.

Senator LINCOLN. And do they work on a commission basis?

Mr. EVERSON. Yes, they do. I had a conversation recently with the Deputy Secretary of Education. He said this has been an incredibly effective mechanism to hand the collection process over, but with the same protections—the very important protections—that you would have if Service employees were doing this work.

The contractors would be evaluated on a balanced score card concept as to feedback from those taxpayers they work with, and also direct intervention with the employees. So I do think that for this narrow area, that would be something that would be good to do.

Senator LINCOLN. Well, taking that, as you say, really evaluating how effective they are and how it provides the taxpayer the same rights, I suppose, under the Reform and Restructuring Act, the Federal Government can be sued by a taxpayer if an employee access confidential taxpayer information without authorization. Is that correct?

Mr. EVERSON. I am not sure that I am familiar with that provision of the law, but if you say so.

Senator LINCOLN. I guess the question would be, would the government be liable if a contract employee took such an action? I mean, if not, what guarantee would our taxpayers have that their privacy is truly being protected? Would they be able to file a suit after their information was released into the public domain? That is an after-the-fact question, unfortunately.

Mr. EVERSON. Right. My understanding is, Senator, the way that the Service has crafted the program, is that the same protections that would apply or standards of conduct that would apply to Service employees would also apply to the contract employees, and that they will have the balance that would say, Mark Everson owes \$5,000, and that is all they would have. They would have that and they would have the address.

They would be on a telephone and they would say, Mr. Everson, we understand you owe \$5,000. Would you like to liquidate that balance, and do so over a 3-year period? There is very little latitude

for them to try and cut a deal or negotiate the way Service employees do in some of the other programs.

So I think it is cleanly done, so the risk you speak to, which would be real if these contractors were doing some of the normal work, the offer and compromise work, where I, in my example, might not have the resources to pay the \$5,000, and if a Service employee assesses whether 10 cents on the dollar is actually adequate and fair under the circumstances, these people would not be working in that kind of a matter.

Senator LINCOLN. So you are saying that the contracting out would only go to maybe the most simplistic of actions from the IRS. Is that what you are saying?

Mr. EVERSON. That is exactly what the program is.

Senator LINCOLN. They would not have access to the private information?

Mr. EVERSON. No. My understanding is they would know the balance and they would know the address where they could locate somebody, so that fire wall would be maintained.

Senator LINCOLN. Something that has been brought to my attention recently, and it is my understanding from this, that under the new OMB circular, the A76 changes, the decision was made to eliminate the jobs of 70 internal mail delivery employees at IRS.

It was also brought to my attention that these workers earned between, I guess, \$18,600 to \$27,300, and that a large number of them were mentally challenged, mentally handicapped.

I guess, as you probably know, if these people are not working they are going to be supported by the government, probably, through social programs. So I guess the question I have is, does OMB look at these types of circumstances in doing its cost benefit analysis of A76 terminations?

Do they use the information that if you have got individuals who have been working there who you do terminate to contract out, that they are more than likely going to then be more dependent on government programs because of their circumstances?

I guess, looking beyond the financial cost of those decisions and focusing, really, on the human side of the decisions on these handicapped citizens and their families, does the circular A76 policy really advance the President's agenda for our compassionate government? There is a balance there, hopefully. I am just curious to know how you all reached that.

Mr. EVERSON. First, let me say I am not familiar with the circumstances of the 70 employees that you mentioned and where in the process they are or are not, or what has happened.

The premise of the A76 process and the competitive sourcing initiative of the President's management agenda is that for work that is commercial in nature—and at the IRS there are about 22,000 or so jobs that are deemed to be commercial in nature.

That is a determination of service made, meaning that it could be done by outsiders—our objective is that the business processes be examined and that there be a competitive evaluation to determine whether the work is best done in the government or outside.

Our thought is that two things happen when you have competition. First, business processes improve so that the programs get better. Second, costs are controlled. The experience, however, with

the program is that, more often than not, when this comparison takes place, the government wins. On over half the occasions, the work is retained in-house.

Usually when the work is not retained in-house, one of two things happens. The employees remain with the government entity that they are with but go to some other job, or they are usually picked up by the private sector entity that is bidding on the work, but is going to handle it in a different way.

So, we have not seen that much in the way of disruption, is my understanding, when this work happens. It has largely been at the Defense Department. They have been the most vigorous in recent years with the use of the A76 process.

So, no, I would not think it is a good thing, obviously, the circumstances you raised. I know the Service is very good about employing people who are handicapped. It has an excellent record in that area. I fully intend to support that, if confirmed as Commissioner.

Senator LINCOLN. Well, I appreciate that. And if you do know anything further or find out further about those particulars, I would certainly like to know about it.

Just to make sure that I understand your answer, when OMB does make these decisions or when you do look at the cost effectiveness of that, is it of their nature at OMB to calculate into those circumstances the further cost to the government that happens?

I mean, I have been begging for years that we could at least have some cost savings from prescription drugs, because I can see how effective they could be in a State like mine in bringing down other health care costs. But OMB does not calculate it that way and we never get the cost savings.

But I guess my question is, does OMB ever calculate in the subsequent cost to government that happens if, in fact, these circumstances or the information that I have gotten are correct? Do they ever calculate any cost savings?

Mr. EVERSON. I do not think that would be imbedded in the calculation methodologies, because the presumption would tend to be that the people who are gainfully employed would be capable of, as I say, working with the follow-on entity or somewhere else because they have already demonstrated that they can perform the task.

The other point I would raise about the costing formula, though, is that there is built into the standard a 10 percent benefit of the doubt, if you will, to the public employee, because the private sector's costs have to be lower. They have to be 90 percent of the bid that the government entity makes in order to be considered.

Senator LINCOLN. For their overhead.

Can I ask one more question?

Senator BAUCUS. Go ahead.

Senator LINCOLN. Great. Actually, two.

Senator BAUCUS. Oh, just one. [Laughter.]

Senator LINCOLN. They are two quick ones. When we talked about the \$280 billion we talk about in revenue loss, and when you cost out the \$9 to 10 billion that EITC is possibly involved in that, in terms of the resources to recap those losses, is it proportional in terms of the resources that have to be contributed or directed towards the recapping of those lost resources from EITC? Is it pro-

portional in terms of the resources that the IRS would, or should, use towards the recouping of lost revenue from the corporate and high-end?

Mr. EVERSON. I think that we will know the answer to that as we see the effectiveness of the other areas of the compliance programs. As I indicated before, I think a lot can be done merely by the emphasis of compliance and the redirection of employee resources.

And I understand that it is getting to a point where it is going to bring more active matters into the abusive tax shelter arena. We will see how much it takes to get people's attention to get compliance.

The thing about the EITC, is it is tricky. It is like a lot of the other programs that give rise to erroneous payments in the government, of which there are many, over \$30 billion a year in erroneous payments by the government. They serve a beneficial purpose.

EITC has got a lot of great benefits. But I think here, with relatively simple changes in pre-certification, we can make sure that what the Congress intended is actually what happens here. So, it is probably easier to fix it in some ways than a few of the other areas we are talking about.

Senator LINCOLN. Just going back to when we talked about the contracting out and really the privacy of the taxpayer being protected, you had said that the contracting out that goes out is only on a small portion, and it is a selected portion of probably minimal, need-to-know type basis in terms of the private information of taxpayers that is given to these contractors when the business is contracted out.

I guess, just from my understanding and some of what I have read or have been able to glean from what has been out there, it seems that the IRS does not have the sophisticated technology necessarily to really pick out those cases in a way to maximize the effectiveness of using that private collection agency or that contracting out.

Is that true, or is that not true? Are there plans for the IRS to become more sophisticated in their technology to be able to really pick and choose which of these cases they are going to contract out?

Mr. EVERSON. My understanding, Senator, is that this \$13 billion—and that is a balance that has been long out there. You have to keep balances due on the books for 10 years, so the government, in actual fact, cannot write off something that they know is not going to be collected as a private company would. After four or 5 years, a company would take something off its balance sheet.

Senator LINCOLN. Right.

Mr. EVERSON. The government does not do that. This \$13 billion is pretty clearly identified. The kind of improvements in systems that you are speaking to which are so necessary, I would suggest to you, would enable the Service to better prioritize the additional efforts of where, in matters that were more complex, they could take specific actions and devote investigatory resources.

My impression is that this category of debt is so narrowly crafted, that the information is there, these balances have been hanging around for a period of time, there is no indication that the taxpayer will not pay if asked. So, it is something relatively simple to do.

Just, again, going back to the education model, it has the benefit, as I talked to Bill Hanson on this subject, he said, what collection does, is it gets this off the back of the individual who, in many instances, know they have a balance due to the IRS and they would feel better if they got it liquidated in a way that would be acceptable economically to them.

Senator LINCOLN. Well, I can understand what you are trying to describe. But, looking back, did OMB not eliminate funding in the 2003 budget for technology needed to achieve the privatization?

Mr. EVERSON. The modernization?

Senator LINCOLN. The modernization to be able to bring in that technology that allows you to pick and choose which of these cases are more sensitive and need more protection and privacy, and those that you are saying just need to be asked.

Mr. EVERSON. Before you came in, I indicated that this modernization area is one of the four areas that GAO has identified as a high-risk area for the government. There are four IRS areas out of the two dozen government-wide. IRS has got more than its share. Business systems modernization is one of those four high-risk areas.

Senator LINCOLN. How is it high risk?

Mr. EVERSON. High risk, because of the fact that the systems are inadequate to support the Service.

Senator LINCOLN. In the current systems.

Mr. EVERSON. The current systems. Yes, all of it.

Senator LINCOLN. All right.

Mr. EVERSON. Their observation about the management of the business modernization process has been is, "The scope and complexity of the program are growing. The challenge for IRS is to make sure the pace of systems acquisition projects does not exceed the agency's ability to manage them effectively. We at OMB share that view.

What we did, in working with Treasury and the Service, was to indicate that we want to see focus on certain areas, demonstrate a credible track record, get those done, and then move forward more broadly. Our clear impression was that the Service, for good reasons, was just simply trying to do too much all at once." So, there were some funding adjustments that took place.

Senator LINCOLN. It was eliminated, was it not, in 2003?

Mr. EVERSON. Not the modernization program. The modernization program—

Senator LINCOLN. The technologies.

Mr. EVERSON. No. The technology had almost \$400 million of investments for the business systems modernization program in 2003. In fact, the President's request for 2004 is \$430 million for the business systems modernization.

Senator LINCOLN. All right.

Thank you, Mr. Chairman. I am sure you are going to be confirmed, and I wish you well, and all of that. But when you are—if you are, I guess I should say—I would like, if you could, for you to provide me with more information, particularly about those 70 employees.

Mr. EVERSON. Senator, I certainly will. I look very much forward, if I am confirmed, to working with you on all of these issues.

Senator LINCOLN. I am sure you will. Thank you.

Mr. EVERSON. Thank you.

Senator BAUCUS. Thank you very much, Senator.

Mr. Everson, as Commissioner you are going to obviously be charged with making sure that everybody pays his or her fair share of taxes, that is, individuals as well as corporate.

Your thoughts on the complexity of the Enron transactions and the book tax question. Those are really separate questions. Let us take the first one. The Joint Tax staff informs us that they virtually could not understand what is happening with all the transactions going back and forth and the special entities, and so forth.

They could only rely upon the opinion letters of the counsel to basically give them some sense of satisfaction that what was going on was not illegal, or had a business purpose or whatnot. If that is the case, then I have got to assume that the IRS itself missed it. That is, there were no red flags. The IRS did not take any action with respect to those transactions.

Your advice. What can you do as Commissioner, and what advice do you have generally, to minimize the reoccurrence of those kinds of complex corporate transactions?

My guess is that they are widespread. It is not just Enron, but there are many, many other companies, accountants, and law firms who are, together, involved in very similar arrangements. My guess is, not only are there many of them, but they involve tens of hundreds of millions of dollars of uncollected income taxes.

They probably intend to demoralize, the more Americans read about them, the average taxpayer. The average taxpayer probably thinks, why should I not under report? Why should I not fudge? Why should I not shave here and there? It is a huge issue.

Your solutions?

Mr. EVERSON. Let me, first, say I agree with the thrust of your characterization that it is a real problem. I do not know the extent to which it is a problem.

I think Enron was a case unto its own, as by all indications. But I think that the President's corporate accountability efforts extend to this area, that corporations need to pay their taxes in accordance with the Code, and that it has not been proper, the extent to which law firms and accountants, as I indicated in my statement, have gone to great lengths to structure transactions, perhaps in part feeling that they are, as you indicated, so complex that it would be difficult for the Service to understand, and also the chances that they will even be looked at are relatively low.

I think part of it comes back to making sure the Service, again, understands that it has a clear responsibility in this area, and that enforcement is seen by the Commissioner as an important priority. That is the first point.

And that the proper people are hired and trained. I have had a chance to talk with some of the people from the large- and mid-sized business unit. What they are doing, is they are changing the way they do these audits.

In years past, folks would be just sitting at a corporation and going through all sorts of scheduled items, the depreciation and other areas, which might just be timing items, whether it is something that is taken as a deduction in 1 year or another.

What they have revised and gone to now, is they are going to something that is called limited issue focused examinations, where they try to reach an understanding up front of where the exposure areas might be.

It might be in some of the complex international or related party transactions that you are mentioning, and focus on those. So, I think that there will be a lot of redirection of resources within the Service to work on those matters, again, reexamining business processes, how you do audits, and what you look at when you go forward. I will certainly champion that.

The second thing I will do, is I will make sure that we have the right human capital policies to try and make sure we have good people doing that work. My understanding is that there are a lot of excellent folks in there, but there have been years when the Service did not hire anybody to come up through the ranks there.

One of the things, is you cannot be outmanned in this area. You have got to have your accountants to make sure they understand it, as you say, because of the complexity.

Senator BAUCUS. I am not sure that Enron is unique, as you implied. The papers are full of similar kinds of stories. I mean, there is MCI, Tyco, Xerox. There are many companies involved in the same kinds of transactions.

Mr. EVERSON. Sure.

Senator BAUCUS. And those are just the ones that are in the newspapers.

Have you read the Joint Committee report?

Mr. EVERSON. I have not yet read that report.

Senator BAUCUS. I am asking you to read it.

Mr. EVERSON. Certainly.

Senator BAUCUS. Because when you do read it, I think you will agree with me that the problem is much more severe than some might think, and the problem is very widespread.

Now, the slight problem, too, is when you divert resources to that enforcement area, you are taking resources away from something else. My guess is, a lot of the problems that we have are just due to inadequate resources at the IRS. I mean, very highly trained, top-quality people. It is quality in, quality out, as you well know. You are the man now. You are the one in charge. The buck is stopping right there at your desk.

It must be interesting for you. Over at OMB, you could kind of somewhat take pot shots and be critical of various different agencies. But now you are the man at this agency.

Mr. EVERSON. You are right. I get to put my money where my mouth is on this one.

Senator BAUCUS. You get to put your money where your mouth is on this. So what I would like to do, Mr. Chairman, is ask Mr. Everson to report back to this committee on certain benchmarks that we think are reasonable, and in a reasonable time period.

I think they would include the audit rates, they would include success rates in each of the categories that the Service is modernizing. That would include enforcement data, that is, taking the Oversight Board's data and asking, say, in an appropriate period of time what the data now is. There are lots of different areas I can think of off the top of my head at this point.

Mr. Chairman, I suggest that we do that. We send a letter to the about-to-be Commissioner and have a subsequent hearing.

In that same vein, Mr. Everson, I would just like your views of the Oversight Board. What do you think they should be doing, and how aggressive should the Oversight Board be?

Mr. EVERSON. I have had a chance to meet with the chairperson, Nancy Killifer, of the Oversight Board. We had a very good discussion. I view the Oversight Board as a very helpful and useful mechanism for me in terms of, it almost functions a little bit like a corporate board of directors, where it is a group of individuals who take the time to learn the affairs of the Service they see it from both the inside and the outside, and I think that the board will hold me accountable, much as this committee holds me accountable.

There are several independent views. We have got the Taxpayer Advocate, as you know. The Service has a lot of different mechanisms for which the Commissioner does understand and get feedback, if you will, from the public and from other stakeholders. Clearly, the Oversight Board is one.

I think it is useful, and for me will be helpful in terms of understanding what needs to be done. A lot of those people have a real sense of history. Nancy Killifer, herself, Larry Levitan, a few of the others, have really been studying this issue for many years at this stage.

Senator BAUCUS. Yes. I would hope that they could not be like a typical board of directors that have been a little lax in America lately. I would hope that they would not just take their paycheck and show up and file their expense accounts, and so forth, and get sucked up into the culture.

Rather, I hope they do their work. Their job is to oversee and to keep your feet to the fire, just as ours is too, just like our voters keep our feet to the fire.

Mr. EVERSON. Yes.

Senator BAUCUS. We self-destruct every 6 years and we get a chance to try again. But I wish you luck, and very, very good luck. This is an extremely difficult position and it seems like it is getting more difficult with each new Commissioner and each passing year, because the data is just terrible. It is just outrageous. The income is not being collected. People are getting away without paying income taxes. You have one heck of a job ahead of you.

As I mentioned earlier, I applaud Commissioner Rosotti for being so frank when he left. But apparently he felt he had to leave before he could be frank. I am hoping that you will be frank all the time, not only when you leave, but while you are working with us.

It is only with your candor, along with just a lot of hard work and cooperation, are we going to be able to solve these problems. So, I wish you the very best luck. We are open to you. We want to work with you.

Mr. EVERSON. Well, thank you, Senator. I very much appreciate your sentiments and your personal support. I do intend to have a very honest and continuing dialogue with the Chairman, with you, and with all members of the committee and others, as well as, of course, from the House. I think the sentiments you have expressed

are those that I share. Candor is important. It has been pretty much the way I have operated.

Senator BAUCUS. Thank you.

The CHAIRMAN. I thank Senator Baucus for chairing the committee in my absence. I think it is obviously another example of the bipartisanship and the trust that we have on this committee. That is what it takes to get the job done.

I would say to Senator Baucus that I think we should follow up on his suggestion and see what we need to have updates on and what we can get mutually agreed to. I think that we would want to make sure that they were quantifiable and realistic goals that we would get updates on.

I think that probably fits very much into our oversight responsibilities, so I do not think you are really asking us to do something new in regard to your specific suggestion.

But it is really within the tradition of what this committee ought to be doing in the way of oversight. So, we can have our staffs work together, and you and I can meet on that as well to follow up on that.

Senator BAUCUS. Thank you, Mr. Chairman. I think it is a good idea, not only because it was my idea, but because I think it is an idea that will help move the ball along here. Thank you very much.

The CHAIRMAN. Yes.

And I did not have a chance to say congratulations to your family, as I was leaving you were introducing them. But I say congratulations to your family, that they are able to participate in the further professional advancement of your public service.

I have just a few questions. I might have one or two that are appropriate and important to my State of Iowa, but let me start with a general approach.

I have been an early advocate that IRS Commissioners should come here with business experience. While this has made many tax lawyers mad, because this has always been a position that has been filled by tax lawyers, I believe the success of Charles Rosotti has proven my recommendations to President Clinton to be right.

I am pleased that the administration has chosen to nominate someone like you with business experience to succeed Mr. Rosotti.

I would like to have a little more detail of your business experience in the private sector. Particularly, I would like to know the number of people you have managed, the dollar amounts involved, and how you see your experience in the private sector relating to your work as Commissioner of IRS.

Mr. EVERSON. Senator, I have always had a belief that you get the broadest possible experience. And this will probably surprise you because I do not think it is something we have discussed. The first thing I ever did in business, was I worked on a farm. I know you are a farmer. It was a poultry farm.

I spent almost a year in Zambia after I finished at school, before I went off to college. That was probably as much of a formation as anything, because there I supervised a butchery operation, and then I went on and I supervised the broiler grow-out operation. I ended up supervising a hatchery.

If anything, that is where I learned about how you get things done, that combination of leadership you need to bring, setting pri-

orities, collaborative efforts, which is another centerpiece. People have to feel they have a stake in what they are doing, and working as a team.

And then, finally, accountability, the kind of things that Senator Baucus was talking about, having clear metrics and indications of what is success. But that is the first thing I did, and that was a formative experience.

As you indicated in your opening statement, I had my real foundation of my business career as 6 years as an auditor in New York at what was then one of the most highly regarded firms, Arthur Andersen.

I worked on large, complex, New York Stock Exchange assignments. Texaco, International Paper, something called FibroCorp, one of the world's largest commodity traders, ultimately the parent company of Solomon Brothers.

I came down here and spent 6 years in government. But, in between the Reagan days and coming back in 2001 to rejoin government, I was with two different business: 10 years with the Peshané Group, which owned American National Can.

Peshané was one of the largest companies in France. I had a variety of assignments. I ran a factory on the south side of Chicago, where we made over a billion cans a year. I had a unionized workforce, both steelworkers and machinists.

Then I went off to Turkey and ran a subsidiary. It was about an \$85 million business, where I had the full responsibility for it. A little bit, you are off on your own there in that corner of the world, running everything with total attitude accountable for the customer service, the quality, and also the costs of the sales and everything. One of the benefits there, is that is when we adopted our children, Emma and Leonard, when we were living in Turkey.

We came back. I got back into finance at that stage. The company asked me to be the vice president comptroller of a large glass manufacturing division that made bottles for beer and soft drink customers and other food businesses. We had about 10 plants, \$700 million in business. I did that for a couple years.

Then the company asked us to go overseas again. Peshané, as I said, was about a \$12 billion business. They asked me to go over and be the only non-Frenchman running a corporate department, a small department that had dotted line supervision over all the finance activities as to budgeting, internal reporting, and multi-year planning.

That was in French. I had to go over and learn French—and that was really quite an adjustment—and function at a very senior level, one of the top 30 people, in what was one of the top 20 companies in France. So, what I have had is a lot of international experience, both in developing and developed countries. Finally, that came to an end.

We wanted to get back to the States. The last three years of my private sector experience were with something called Sky Chefs, where I was group vice president of Finance. That is a \$2 billion-plus food services company, a big airline caterer.

There, I had 60 or 70 people right in my office, but had responsibility for all the financial operations out in the field and the plants as well.

So I guess what I have done, is I have had operating experience in business, financial experience in business in a lot of different places. I think that that gives me perspective.

When people tell me, you cannot do this, my usual reaction is, well, I actually think you can. I have seen somebody do something like it. So, I think that the breadth of the experience is helpful, and my impression is that it will be accepted and valued at IRS.

The CHAIRMAN. Thank you very much.

One of the things that is easily quantifiable and something that Senator Baucus and I, it seems like, could fit into the suggestions he was making for a periodic update, is the figure that is presently, I think, \$13 billion currently non-collectible.

You probably know that the President's budget for next year includes a proposal that would allow the IRS to leverage its collection operation. The way the President envisions this, private collecting agencies would collect overdue taxes from a limited subset of those people who owe taxes, while the IRS would maintain and use its existing collection resources to address very complex cases.

Private collection agencies would focus on two groups: taxpayers filing returns that show an amount due but who fail to pay the tax, and taxpayers who have been assessed additional taxes by IRS, and where there has been three or more voluntary payments to satisfy that tax, but people have stopped paying.

On its face, this sounds like a great program. PCAs are skilled at this type of debt collection and should make some headway into the accounts. So, this brings me to two questions.

First, I would like to know your opinion of the proposed program. Second, your assurance, even though PCAs are highly regulated by the Fair Debt Collection Practices Act, that taxpayers will be afforded their privacy and their Taxpayers Bill of Rights.

Mr. EVERSON. Mr. Chairman, I am a strong advocate of the program for some of the reasons you have just articulated. I would simply add that, right now, 42 States actually use PCAs to collect some of their taxes.

As you know, in the Federal Government it is already used by the Financial Management Service of Treasury, where certain debts are referred over and 100 percent of the work is done by private agencies.

I was indicating, in a conversation with Senator Lincoln, it is, as you say, used in the Education Department. Bill Hanson, the deputy, just told me that it has been incredibly effective, the use of PCAs, on student loans to help students liquidate those old balances.

So, I think that is a good way to go. It does what you say, it will free up the service resources for more complex matters. I am very cognizant of the fact that the protections have to be built in to make sure that the information that is given is only the balances and the location of the individual.

I understand that the Taxpayer Advocate has looked at this and is also satisfied that this can be done with all the right protections. The Service, I think, will work very hard to make sure that there are no problems of the sort that you suggest could be problems.

The CHAIRMAN. Since the time of the Restructuring Act, the IRS has devoted a great deal of effort on modernizing both business

structure and its technology. Both focuses are very necessary if the IRS expects to meet legislative requirements, and more particularly the expectations of the taxpayers.

IRS customers expect—and I do not think unreasonably—for the agency to provide the same level of customer service as you might expect from many financial institutions in the private sector.

Although business and technology modernizations are both necessary to meet this expectation, I believe that the third leg of the modernization effort is human capital. In order to run the new IRS, its employees have to be well trained, well motivated, and well selected.

As Commissioner, how would you assure yourself that the IRS was managing its employees strategically? More specifically, how would you plan to manage IRS' hiring program, training program, as well as employee retention program, all of which, it seems to me, are very related to morale?

Mr. EVERSON. Senator, I think you have put your finger on one of the most important issues that I will need to tackle, should I be confirmed for this position. The strategic management, human capital, as you know, is one of the President's five overall management agenda items. I would tell you, it certainly applies at IRS, and perhaps no place any more than IRS.

The Service has a lot of very fine employees. However, there have been periods of time when, in recent years, in whole areas, particularly on the enforcement side, new staff has not been hired.

So, first, it is going to be very important to make sure that classes, if you will, of people are able to enter into the Service, that they are able to get the proper training that they need.

As part of the conversation we were having with Senator Baucus, the complexity of all of the non-compliance matters has grown in recent years. So you need to both make sure you have the right hiring practices, you need to make sure that you have the right training, and I think that there will be an opportunity for me to find a new leader for this function, because the individual who sort of helped create a lot of the new programs that were the result of your work in the Reform Act, that individual recently left the Service. So the appointment of someone, a chief human capital officer, if you will, will be a big piece of this.

The CHAIRMAN. Yes. I might suggest to you that this is an important item, because it was discussed in a recent meeting of the IRS Oversight Board. I think at least one member of that board expressed a lot of concern about whether or not the training budget was being spent effectively.

Mr. EVERSON. Yes.

The CHAIRMAN. And, more importantly, that it seemed to be difficult for the IRS to show precisely how those training dollars were spent. So, that is not anything you could have known about, but it is something you can look into and do something about.

Mr. EVERSON. Certainly, sir.

The CHAIRMAN. We always, I think legitimately, talk about balance within the IRS between your responsibility to collect every dollar that is legitimately and, legally owed, and your responsibility to also make sure that during that process taxpayers are treated fairly.

I understand that some 23 million Schedule K1s are filed annually. These documents report over \$1 trillion in income to partners, S corporation shareholders, and trust beneficiaries. Within the past year, IRS aborted an effort to match Schedule K1 data to income reported by individuals on their Form 1040.

With that in mind, I have three questions. How would you prioritize the importance of the current effort to complete this matching? How much money do you believe the FSC is losing on an annual basis because of failure to match K1s? And under your leadership, how soon do you expect the IRS to have the capacity to match K1 information?

Mr. EVERSON. I think it is an important initiative. The history of it is as you outlined. The Service, as I understand it, tried to roll out a program and was not initially successful in doing that. I think it is being worked on now.

My understanding, actually, getting to your last question, is that a new effort on this, with the proper improvements from the first effort, will take place later this year. Within this calendar year, there will be a re-launch of this.

I cannot answer, Senator, the question as to what is being lost by not having the proper matching in this area. You have indicated this was a terribly large portion of the country's economic activity, over \$1 trillion.

That is my understanding of the facts as well. Clearly, getting an understanding of this will be a lot easier once you do start to do some of the initial matching and you see what has happened there.

My understanding from the Service's efforts of matching in other arenas, is that when you do do the matching of the third party data, it does very much improve compliance because people see that the Service has the facts. They say, oh, yes, that is correct, and then the balances are paid or determined.

So I cannot tell you the size of it yet. I am sure we will have some real reflection on that once the Service does start to gain experience with this new program.

The CHAIRMAN. I have, now, a question that deals just with an issue within the State of Iowa. It is an issue that takes action by the IRS. My State is under a statutory mandate to set up a Voluntary Employee Beneficiary Association, VEBA, for short, to help public safety officers who are under the retirement age of 55 fund their own post-employment health and other welfare benefits. Let me emphasize that this is a mandate.

This is not a tax shelter VEBA that is considered a listed transaction by the Service. Instead, it is a means of helping public employees pay for their retirement, but not pension benefits.

The State has been rejected by the Service on their proposal. The reasons for the rejection seem to be very vague. Iowa resubmitted its proposal a year ago. It continues to have a difficult time dealing with the Service on this issue.

The tax examiner has made comments that he is—at least this is what we pick up—“looking for a reason to reject the petition.” He has also told a representative of the State that he is in no hurry and may wait years before writing our State a letter of rejection.

We are talking about police and firefighters, in this instance. I think, if that does accurately reflect somebody's view at the IRS, it is not treating our police and firefighters the way they deserve to be treated.

I respectfully suggest that it is kind of unprofessional. As I said a moment ago, this proposal is not structured as a tax shelter, but to provide benefits for State employees. So I guess, I would ask if you could look into this examination process for these benefit plan proposals.

If the Service's position is so very negative towards the State of Iowa, it is probably also impeding other approvals. It is probably not fair for me to expect an answer from you today on this, but if I could have an answer sometime in writing, or by phone, or something before the end of the week, I would appreciate it.

I think that this is one opportunity for the IRS to emphasize the word "service" as part of their name. So, I do not presume you can comment on that at this point.

Mr. EVERSON. No, I cannot. I do not like the facts as you have outlined them. At a minimum, whoever has said this, it is pretty clumsy to be targeting Iowa. But I do not think that the words that you have expressed are appropriate for an attitude. I do not know the facts of the matter.

I would ask, as I am not allowed to direct Acting Commissioner Wentzel, but he is here and I am sure that he can get to the facts of this situation, and promptly. I can only tell you that my experience with the people I have met from the Service thus far is that that is not the way they would want to conduct their business. So, I will make sure that I look at this instance, and others that are brought to my attention like this.

The CHAIRMAN. All right. I thank you very much.

I believe I have just one last question. My staff just reminded me that maybe I had better say, for all the members of the committee, so that you understand that this is the practice of the committee, those that could not be here, including those of us who were here, may have some questions that we want answered in writing.

I would ask that you respond to these questions promptly, because I think, as long as it is a legitimate question from my members of the committee it should be answered efficiently. It would be wrong for me, as long as it is not a stalling tactic or something, not to help my members of both parties get answers to their questions.

Mr. EVERSON. Certainly.

The CHAIRMAN. This refers to the 2001 tax bill, improving pension portability by promoting the purchase of service credit for public schoolteachers. That provision allowed teachers and other school employees, such as school administrators, to use funds from their defined contribution plan or elsewhere, to buy additional services in the Teachers' Defined Benefit Pension System.

It seems like the Internal Revenue Service has recently ruled that teachers cannot purchase any additional credits unless it is with a service from within their own school district.

Do you not agree that that would frustrate the broad goal of portability that Congress set out in the 2001 tax bill? Would you please look into this matter and get back in touch with me?

I have a letter that I am going to submit that I sent to the Treasury Department about this matter, very late last year. If you wish, I could send you, the same letter if that would be helpful.

Mr. EVERSON. I will certainly check on the status of this matter, Senator. I am not familiar with the details of it. I will ask the status of it from colleagues at the Treasury Department, see where it stands, and make sure that I understand it.

The CHAIRMAN. Yes. And thank you very much. I think you have been very helpful to the committee. Except for questions that will be submitted in writing, it would be my intention to move forward as quickly as we can to get a bipartisan agreement both in committee and on the floor.

Thank you very much.

Mr. EVERSON. Thank you.

[Whereupon, at 11:34 a.m., the hearing was concluded.]

APPENDIX

PREPARED STATEMENT OF HON. MAX BAUCUS

I want to begin by welcoming Mr. Everson, his family, and his friends to the Finance Committee. I also want to congratulate you for being selected by the President to serve as the 46th Commissioner of the Internal Revenue Service.

Since the Office of Commissioner of Internal Revenue was created in 1862, there have been five commissioners from the State of New York. Mr. Everson, you would be the sixth.

- William Orton served four months in 1865;
- Alfred Pleasonton served eight months in 1871;
- Joseph D. Nunan, Jr. served three years and 4 months around World War II; and
- Justin F. Winkle served as acting commissioner for 14 days in 1953.

Former Commissioner Charles O. Rossotti was the fifth native of New York to serve as Commissioner. Thankfully, he served longer than the previous four commissioners from New York combined. He was also the first to serve under the five-year term enacted as part of the 1998 IRS Restructuring and Reform Act. Prior to the Act, the average tenure of an IRS Commissioner was under three years.

The five-year term is important to the IRS, to the Congress, and the American taxpayer. Creating a term of 5-years was one of the key improvements made in 1998. It was designed to make the position less political and more accountable.

In everyone's judgment, it is the continuity of leadership at IRS that will help the agency become more efficient, responsive and respected. If you are confirmed, I expect you to fulfill the 5-year term. This commitment is not to be taken lightly. Continuity is critical.

There is also a critical need to stay the course. New Commissioners have a tendency to want to put their own stamp on the agency. Reconfigure operations. Change directions. Re-prioritize issues. Or move personnel.

But reorganization, in of itself, is not progress. The '98 Act provided the IRS with a long-term roadmap—a plan for moving the agency into the 21st century. Commissioner Rossotti was brought in to implement this plan—the most sweeping change to the IRS in 50 years. Under his leadership, the agency now has a new mission statement, a new organizational structure, a new strategic plan, and a new senior management team.

Commissioner Rossotti pulled the IRS wagon out of the ditch—and he has it headed in the right direction. The nation has been well served by his efforts. Unfortunately, the IRS wagon carries a heavy load—and is prone to being stuck in the mud.

Mr. Everson, your job is to keep the wagon on course and out of the mud. Consistency is critical. Five years ago, Congress and the Administration worked together to bring about changes at the IRS. Promises were made to the American taxpayer regarding the IRS's antiquated computer systems, customer service, and enforcement.

I intend to use today's hearing to examine the progress—or lack thereof—in fulfilling these three promises.

First, while improvements have been made, the IRS is still in the technological dark ages. We understand that only two major projects have been completed—with the others having delays and cost overruns.

I realize that Commissioner Rossotti said it would take 10 years to complete the modernization projects, but Congress expected that more would be accomplished on the technology front during his tenure. I would like to know whether the modernization effort will be complete during your five-year tenure. I would also like to hear how you intend to keep systems modernization on track and make it a reality.

Second, it is troubling that enforcement statistics have dramatically declined. When Commissioner Rossotti departed he pointed out that the IRS does not have the resources to pursue *identified* tax debtors and cheats. I applaud his frankness.

The numbers provided in his report to the Oversight Board last November are staggering:

- 60 percent of identified tax debts are not pursued;
- 75 percent of taxpayers who did not file a tax return are not pursued;
- 79 percent of identified taxpayers who use abusive devices (e.g., offshore accounts) to evade tax are not pursued;
- 56 percent of identified taxpayers with incomes of \$100,000 or more and under-report tax are not pursued; and
- 78 percent of partnerships and similar document matching are not pursued.

Honest taxpayers should not have to wonder whether the tax collector can keep up with tax cheats. I would like to hear your plans for addressing deliberate tax cheating. How do you intend to restore a credible enforcement presence at IRS?

Third, when Congress passed the '98 Act, we had a vision for a restructured IRS. We want IRS representatives to have timely computer access to tax information so taxpayer assistance is quick and accurate.

We want to reduce the paperwork and have more taxpayers filing electronically. We want honest taxpayers to be treated with respect. We want tax cheats brought to justice. I would like to hear how you plan to bring this shared vision into reality. Modernization and taxpayer service are critical.

Mr. Everson, being IRS Commissioner is one of the most demanding jobs in government. There are many challenges ahead of you. Taxpayers want a modern, professional agency. They are entitled to first-rate service. They expect the IRS to ensure that everyone is paying their fair share.

I am committed to working with you and the Administration to help the IRS meet the expectations of America's taxpayers and the Congress. I encourage you—and the Administration—to work with us.

PREPARED STATEMENT OF HON. MARK W. EVERSON

Good morning, Mr. Chairman, Senator Baucus, and members of the Committee. As you know, my name is Mark Everson and I am the Deputy Director for Management at the Office of Management and Budget. It is an honor to be before the Committee today as you consider my nomination to become Commissioner of Internal Revenue.

Before taking your questions I appreciate the chance to touch upon two subjects: why I want to assume the post for which you are considering me today, and a brief summary of the areas that I would expect to emphasize most during my tenure if confirmed as Commissioner.

The foundation of my interest in becoming Commissioner of Internal Revenue is a deep appreciation for the importance of public service. In fact, commitment to public service is a value shared with my wife, Nanette, who is here with me today but who also serves in government as a member of the White House Counsel's office where she oversees the ethics portfolio. Public service is demanding, particularly for family members. I am thankful for Nanette's love and support, as well as that of our daughter Emma, also here this morning, and her brother Leonard, who is a cadet at Fishburne Military School in Waynesboro, Virginia and can not be with us because of mid-term exams.

Our government provides a myriad of programs and services to its citizens, from defending our homeland, to improving educational opportunities for our young, and protecting the environment for future generations. Virtually all of the revenues which fund these programs are collected by the Internal Revenue Service. That, in and of itself, makes the IRS a core element of our government. But the fact that the IRS interacts with so many individuals, in fact more than any other agency, makes the Service an important face of our government to its citizenry. The IRS needs to serve taxpayers in a manner which facilitates their voluntary compliance with our system of taxation. Moreover, a properly functioning IRS increases our citizens' respect for government institutions as a whole and, viewed from this perspective, is central to maintaining our democracy. If confirmed as Commissioner, it will be great honor to lead the Service's many dedicated employees as they perform this essential work.

The IRS reforms which the Congress enacted nearly five years ago have proven sound. I believe my first task, if confirmed as Commissioner, will be to reinforce and build upon the excellent work of Charles Rossotti. I am convinced the IRS has made great strides in the last several years in enhancing service to taxpayers. But, as you

know, and as members of the Committee have often stated, much remains to be done. In order to realize the full benefits of the '98 Reform Act, line managers and employees at all levels of the organization must fully embrace the changes which began under Commissioner Rossotti. All should understand that the agency will stay the course in organizing around lines of business designed to better serve the taxpayer.

A second area of emphasis will be continued modernization. If confirmed, I will work to support the information technology modernization efforts which have been underway for some years. Their success is badly needed in order to establish a more efficient and effective IRS. I would add that the information technology modernization program must be supplemented with other business process improvements which will allow the IRS to redirect scarce resources to operational priorities.

A third area of focus, should I be confirmed as Commissioner, will be to strengthen the integrity of the nation's tax system through enhanced enforcement activities. The IRS must deter those who might be inclined to evade their legal tax obligations, and appropriately pursue those who actually do so. A substantive element of a proper enforcement posture will be closer work with practitioners. There are clear indications that professional standards have eroded in some corners of the practitioner community. Attorneys and accountants should be pillars of our system of taxation, not the architects of its circumvention.

Let me close by saying that, as I have already indicated, I believe it is always an honor to serve in government. However, I think it is a distinct privilege to be nominated by the President and be considered by the Senate to serve at this time in our nation's history when the stakes of having an effective government are so high. I know this Committee has a deep interest in the affairs of the Internal Revenue Service, including the issues I have just mentioned. If confirmed, I look forward to working with Senators on both sides of the aisle. I will do my utmost to successfully carry out the responsibilities entrusted to me as Commissioner of Internal Revenue. Thank you and I will be happy to answer your questions.

SENATE FINANCE COMMITTEE
STATEMENT OF INFORMATION REQUESTED OF NOMINEE

A. **BIOGRAPHICAL INFORMATION**

1. **Name:** (Include any former names used.)
Mark Whitty Everson
2. **Position to which nominated:**
Commissioner, Internal Revenue Service
3. **Date of nomination:**
January 22, 2003
4. **Address:** (List current residence, office, and mailing addresses.)
4111 40th Street North Office of Management and Budget
Arlington, VA 22207 17th and Pennsylvania Avenue, NW
Washington, DC 20503
5. **Date and place of birth:**
September 10, 1954
New York, New York
6. **Marital status:** (include maiden name of wife or husband's name.)
Married to Nanette (nee Rutka) Everson
7. **Names and ages of children:**
Leonard B. Everson, 15
Emma P. Everson, 14

8. **Education:** (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)
- Phillips Exeter Academy, 9/68 to 6/71, Diploma, 6/71
 Yale University, 9/72 to 5/76, B. A. (History), 5/76
 New York University – Business School, 6/76 to 9/77, M.S. (Accounting), 10/77
9. **Employment record:** (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)
- See Attachment I
10. **Government experience:** (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)
- None
11. **Business relationships:** (List all positions held [for the past 10 years] as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.)
- None other than those positions listed on Attachment I
12. **Memberships:** (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)
- In 1993-1995, I served on an honorary council of Indiana executives which advised the President of the Hudson Institute.
- For a number of years, I have been a member of the President's Club of the Heritage Foundation.
13. **Political affiliations and activities:**
- a. List all public offices for which you have been a candidate.
- Elected in 1989 and served for one year as community representative to an elementary school local school council in Chicago
- b. List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.
- Member of Texas Republican Party, 2000-2001

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

2000 - \$1000 to Bush-Cheney Compliance Committee
 \$500 to Newton for Congress
 \$75 to Texas Republican Party
 1999 - \$1000 to Bush for President primary campaign
 1998 - \$500 to Bush for Texas Governor
 1996 - \$1000 to Dole for President
 1995 - \$500 to Lugar for Senate
 1994 - \$500 to McIntosh for Congress
 \$500 to Gilroy for Indiana Secretary of State
 1993 - \$1000 to National Republican Senatorial Committee

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

U.S. Department of Justice, Attorney General's Award for Distinguished Service, 1987

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

Enclosed

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

None

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

I believe I was chosen to become Commissioner of the Internal Revenue Service based on a favorable assessment of the work I have been doing helping to implement the President's Management Agenda as Deputy Director for Management of the Office of Management and Budget, and before that Controller of the Office of Management and Budget, and as Chairman of the President's Management Council.

I have twenty-seven years of experience in both business and government. My assignments have included both finance and general operating positions. I have lived and worked overseas in both developed (France) and developing (Turkey) countries. I believe I have the broad base of experience necessary to tackle a position of this scope and the enthusiasm to take it on.

B. FUTURE EMPLOYMENT RELATIONSHIPS

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

I am a government employee and have no such business connections.

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

No

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

No

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

Yes

C. POTENTIAL CONFLICTS OF INTEREST

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

None. However, any potential conflict of interest will be resolved in accordance with my ethics agreement with Kenneth R. Schmalzbach, the Designated Agency Ethics Official. Should any potential conflict of interest arise in the future, I will seek guidance from ethics officials at IRS and/or Treasury to determine the appropriate course of action.

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

None, other than the deferred compensation payment discussed in F.7.

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

None

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

I am not aware of any potential conflicts of interest. Should any arise, I will work closely with the ethics officials at IRS and/or Treasury to determine the appropriate course of action.

5. **Two** copies of written opinions should be provided directly to the Committee by the designated agency ethics officer of the agency to which you have been nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position.

6. The following information is to be provided only by nominees to the positions of United States Trade Representative and Deputy United States Trade Representative:

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

Not applicable

D. LEGAL AND OTHER MATTERS

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

No

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

No

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

No

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

No

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

None

E. TESTIFYING BEFORE CONGRESS

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

Yes

2. If you are confirmed by the Senate, are you willing to provide such information as is requested by such committees?

Yes

Attachment I
Mark W. Everson

Employment Record

August 2002 to Present – United States Government, Washington, D.C.
Deputy Director for Management, Office of Management and Budget, Executive Office of the President.

November 2001 to August 2002 – United States Government, Washington, D.C.
Controller, Office of Federal Financial Management, Office of Management and Budget, Executive Office of the President.

August 2001 to November 2001 – United States Government, Washington, D.C. Consultant to the Director, then Counselor to the Director, Office of Management and Budget, Executive Office of the President.

October 1998 to August 2001 – SC International Services, Inc., Arlington, Texas. Served as Vice President-Finance and Controller until February 2001; then as Group Vice President-Finance.

July 1988 to September 1998 – Pechiney Group/American National Can Company. Served as Plant Manager of Chicago, Illinois can manufacturing factory until February 1991; then as Managing Director of subsidiary in Manisa, Turkey from March 1991 until May 1993; Vice President and Controller of glass container division in Marion, Indiana from May 1993 until April 1995; Vice President-Control of Pechiney Group in Paris, France from April 1995 until April 1997; and then Senior Vice President-Control from April 1997 until September 1998, also in Paris.

July 1982 to July 1988 – United States Government, Washington, DC. From July 1982 to May 1985, served as Special Assistant to the Director and then Assistant Director of the United States Information Agency. Served in the Department of Justice from May 1985 until July 1988, first as Special Assistant to the Attorney General until July 1986, and subsequently as Executive Associate Commissioner and then Deputy Commissioner of the Immigration and Naturalization Service until July 1988.

September 1976 to July 1982 – Arthur Andersen and Co., New York, New York. Staff Auditor, then Senior Auditor, then Audit Manager.

PREPARED STATEMENT OF HON. CHARLES E. GRASSLEY

We meet today to consider the nomination of Mr. Mark Everson to be commissioner of the Internal Revenue Service (IRS). Mr. Everson currently serves as the deputy director for management at the Office of Management and Budget. His career has been one of significant business experience together with several years of public service. I would note that he started his career as an auditor. We now consider him for commissioner of the IRS. The commissioner is an important job that directly touches every single taxpayer in this nation.

Mr. Everson benefits from following Mr. Charles Rossotti, who served ably as commissioner of the IRS. However, while Mr. Rossotti was an effective commissioner, it is clear that it unfortunately will take years to get the IRS to where it provides first-rate customer service as well as an appropriate enforcement presence that respects taxpayer rights. The baton has been passed to you, Mr. Everson, in what is a long run. I don't know if we'll finish during your five years as commissioner, but it's on you to ensure that we are much further down the road at the end of the day.

Let me be clear, the Finance Committee expects progress in modernization, customer service and enforcement while protecting taxpayer rights. We'll work with you to smooth the path before you. However, you can be certain that we won't be shy about letting you know about problems we see at the IRS, and we'll expect you to be responsive to the concerns of the Finance Committee. That said, I commend you for wanting to serve your country in this challenging job.

