HEARING BEFORE THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
U.S. SENATE

"INTERNAL REVENUE SERVICE CONFERENCE SPENDING"

Testimony of
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January 14, 2014

Washington, D.C.

TESTIMONY
OF
THE HONORABLE J. RUSSELL
GEORGE
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION
before
the
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Chairman Carper, Ranking Member Coburn, and Members of the Committee, thank you for the invitation to provide testimony on the subject of conference spending by the Internal Revenue Service (IRS).[1] The Treasury Inspector General for Tax Administration, also known as TIGTA, plays a critical role in ensuring that the approximately 93,800[2] IRS employees who each year collect over $2.1 trillion in tax revenue, process over 147 million individual tax returns, and issue approximately $333 billion in tax refunds, do so in an effective and efficient manner while minimizing the risks of waste, fraud, and abuse.

The IRS reported that it held 225 conferences during Fiscal Years (FY) 2010 through 2012 at a total estimated cost of approximately $49 million. My testimony today summarizes a report[3] issued by my office that focused on the August 2010 IRS Small Business/Self-Employed (SB/SE) Division conference held in Anaheim, California (hereinafter referred to as the Anaheim conference). According to information obtained from the IRS, the Anaheim conference was attended by 2,609 employees at an estimated cost of approximately $4.1 million. We focused our audit work on this conference specifically because of an allegation that TIGTA received about excessive spending at the Anaheim conference and because it was the most expensive conference held by the IRS during FYs 2010 through 2012.

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[1] For this audit, we defined conferences as an IRS-sponsored meeting, retreat, seminar, symposium, training, or other event that involved travel for 50 or more attendees. In addition, a conference is defined in the Federal Travel Regulations as "[a] meeting, retreat, seminar, symposium or event that involves attendee travel. The term 'conference' also applies to training activities that are considered to be conferences under 5 CFR 410.404." See 41 CFR 300-3.1.
[2] Total IRS staffing as of November 2, 2013.
[3] TIGTA, Ref. No. 2013-10-037, *Review of the August 2010 Small Business/Self-Employed Division's Conference in Anaheim, California* (May 2013).

RESULTS OF REVIEW

TIGTA identified several areas of concern associated with the August 2010 SB/SE Anaheim conference and made recommendations to ensure taxpayer funds are expended more efficiently in the future. For example, TIGTA determined that the IRS did not use available internal personnel to assist in searching for the most cost-effective location as required. Instead, SB/SE Division management approached two non-governmental event planners to identify a suitable off-site location for the conference. These two planners were not under contract with the IRS; hence they had no incentive to negotiate a favorable room rate for the IRS. Instead, the three hotels paid the event planners an estimated $133,000 commission based on the cost of rooms paid for by the IRS. TIGTA also identified other questionable expenses related to the conference including planning trips, outside speakers, video productions, an information corridor, and promotional items and gifts for IRS employees.

In total, TIGTA made nine recommendations to the IRS on improvements that will strengthen controls over conference expenditures. In their response to our report, IRS management agreed with all of TIGTA's recommendations. Since the issuance of our report, the IRS has addressed many of our recommendations with interim guidance that it plans to formalize though updates to the Internal Revenue Manual.[4]

APPROVAL AND ACCOUNTING FOR ANAHEIM CONFERENCE EXPENSES

According to IRS management, this conference provided a unique opportunity for leadership development, skills sharing, and collaboration on key issues. As required by IRS procedures, the Anaheim conference was approved by the Deputy Commissioner for Operations Support as well as the Deputy Commissioner for Services and Enforcement.

We determined that the IRS did not adequately track and monitor the costs for the Anaheim conference. While IRS management provided documentation showing the total final costs at $4.1 million, we could not obtain reasonable assurance that this amount represented a full and accurate accounting of the conference costs. The lack of adequate tracking of costs may have been due to the lack of a requirement that IRS management track and report actual conference costs.

[4] The Internal Revenue Manual is the primary official source of IRS instructions to staff that relate to the administration and operation of the IRS.

ANAHEIM CONFERENCE PLANNING

The IRS did not follow established guidelines when selecting Anaheim, California for the conference location because it did not use available internal personnel to identify the most cost-effective location. Instead, IRS management approached two non-governmental event planners to identify an off-site location for the Anaheim conference. These event planners were not under contract with the IRS, but were instead each paid a five percent commission directly by the hotels based on the cost of rooms paid for by the IRS. Since the event planners were directly compensated based on the room rate, there was no incentive to negotiate for a lower room rate and thus save the IRS money. In addition, several IRS employees made three planning trips in advance of the Anaheim conference that cost the Government over $35,000.

CONFERENCE EXPENSES AND ITEMS GIVEN TO ATTENDEES

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

Conference Expenses

We identified several additional questionable expenses related to the Anaheim conference. For example, the IRS produced two videos that were shown at the conference. IRS management advised us that it spent $50,187 for video costs at the Anaheim conference; however, it did not provide any details on the cost or provide any supporting documentation describing how this money was spent.

Additional conference expenses included the following:

- $135,350 for 15 outside speakers, including two keynote speakers.
- $29,364 in per diem[5] expenses authorized by the Commissioner, SB/SE Division for employees who worked in the Anaheim area.
- More than $44,000 in travel costs for 42 IRS employees who staffed booths in an "information corridor," *i.e.,* an exhibitor hall that was staffed by representatives from various offices within the IRS.

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

- More than $64,000 in gifts and promotional items provided to attendees. This includes approximately $27,000 in promotional items provided at the information corridor booths.

Hotel Concessions

As part of its agreement with the Anaheim hotels, the IRS received certain concessions including several food and beverage requests. This included a welcome reception with food and cocktails, daily continental breakfast, as well as beverages and snacks during morning and afternoon breaks. Additionally, as part of the agreement signed with the hotels, the IRS received up to 132 upgraded rooms each night, as well as 10 free rooms.[6] As part of the agreement, the hotels charged the IRS the Federal Government rate of $135 per night for paid rooms, including suites. We believe the IRS may have been able to negotiate with the hotels to get a reduced room rate if some of these services were not included and event planners were not used.

ACTIONS TAKEN SINCE THE 2010 CONFERENCE

During FYs 2010 through 2012, the IRS reported that it spent approximately $49 million on at least 225 conferences. Spending has fallen from approximately $38 million in FY 2010, to approximately $6 million in FY 2011, and $5 million in FY 2012. The IRS attributes the reductions in annual spending since FY 2010 in part to enhanced controls over conference spending.

The IRS has issued several policy and guidance documents in the last few years requiring additional approval for conference spending and limiting expenditures on certain items such as promotional items. In addition, the Office of Management and Budget and the Department of the Treasury have issued guidelines that limit conference spending and require additional approval for conference spending that exceeds certain thresholds. Specifically, Treasury guidance now requires that any conference hosted or sponsored by Department of the Treasury bureaus costing $250,000 or more must be approved by the Secretary of the Treasury. In addition, Treasury guidance issued in places limitations on the use of non-governmental event planners because their use can reduce the Department of the Treasury's control over conference expenses and increase costs.[7]

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[6] Upgraded rooms included a variety of rooms such as studio suites, two-bedroom suites, and presidential suites.
[7] Treasury Directive 12-70, *Guidance and Procedures for Hosted or Sponsored Conference Planning and Approval*, May 6, 2013.

I also want to point out that conferences can serve an important function for the IRS. For example, the IRS Nationwide Tax Forums offer three full days of seminars presented by IRS personnel in the fields of tax law, compliance, and ethics. Attendees, such as tax preparers, can earn educational credits by attending various seminars and workshops. These forums provide training and outreach to taxpayers and practitioners.

I believe that the procedures implemented since the Anaheim conference occurred will help to ensure that some of the questionable expenses we identified do not happen again. However, notwithstanding those actions, we have identified additional improvements needed and made nine recommendations to enhance controls. The IRS agreed with our recommendations and has issued interim guidance in response to our recommendations. According to the IRS, this guidance will be formalized in a future update to their Internal Revenue Manual. Specifically, the IRS has issued guidance to:

- Enhance controls over the monitoring and tracking of conference spending;
- Clarify when conference sessions qualify for continuing professional education credits;
- Ensure that appropriate IRS personnel are contacted to coordinate future conference planning;
- Outline the appropriate use of non-governmental event planners when planning IRS conferences;
- Clarify when planning trips should be performed for conferences;
- Outline the appropriate use of hotel room suite upgrades by IRS employees; and
- Justify the need for any information corridors/exhibitor halls and other technology for future conferences.

In addition, the IRS instituted a video review board that is tasked with approving any requests for video development Service-wide. Although the IRS reviewed whether Forms W-2, Wage and Tax Statement, should be issued to the employees TIGTA identified as potentially incurring taxable travel, they did not review all local employees who attended the Anaheim conference to ensure all Forms W-2 were issued as TIGTA recommended.

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

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

J. Russell George

Treasury Inspector General for Tax Administration

Following his nomination by President George W. Bush, the United States Senate confirmed J. Russell George in November 2004, as the Treasury Inspector General for Tax Administration. Prior to assuming this role, Mr. George served as the Inspector General of the Corporation for National and Community Service, having been nominated to that position by President Bush and confirmed by the Senate in 2002.

A native of New York City, where he attended public schools, including Brooklyn Technical High School, Mr. George received his Bachelor of Arts degree from Howard University in Washington, DC, and his Doctorate of Jurisprudence from Harvard University's School of Law in Cambridge, MA. After receiving his law degree, he returned to New York and served as a prosecutor in the Queens County District Attorney's Office.

Following his work as a prosecutor, Mr. George joined the Counsel's Office in the White House Office of Management and Budget where he was Assistant General Counsel. In that capacity, he provided legal guidance on issues concerning presidential and executive branch authority. He was next invited to join the White House Staff as the Associate Director for Policy in the Office of National Service. It was there that he implemented the legislation establishing the Commission for National and Community Service, the precursor to the Corporation for National and Community Service. He then returned to New York and practiced law at Kramer, Levin, Naftalis, Nessen, Kamin & Frankel.

In 1995, Mr. George returned to Washington and joined the staff of the Committee on Government Reform and Oversight and served as the Staff Director and Chief Counsel of the Government Management, Information and Technology subcommittee (later renamed the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations), chaired by Representative Stephen Horn. There he directed a staff that conducted over 200 hearings on legislative and oversight issues pertaining to Federal Government management practices, including procurement policies, the disposition of government-controlled information, the performance of chief financial officers and inspectors general, and the Government's use of technology. He continued in that position until his appointment by President Bush in 2002.

In addition to his duties as the Inspector General for Tax Administration, Mr. George serves as a member of the Recovery Accountability and Transparency Board, a non-partisan, non-political agency created by the American Recovery and Reinvestment Act of 2009 to provide unprecedented transparency and to detect and prevent fraud, waste, and mismanagement of Recovery funds. There, he serves as chairman of the Recovery.gov committee, which oversees the dissemination of accurate and timely data about Recovery funds.

Mr. George also serves as a member of the Integrity Committee of the Council of Inspectors General for Integrity and Efficiency (CIGIE). CIGIE is an independent entity within the executive branch statutorily established by the Inspector General Act, as amended, to address integrity, economy, and effectiveness issues that transcend individual Government agencies; and increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the offices of the Inspectors General. The CIGIE Integrity Committee serves as an independent review and investigative mechanism for allegations of wrongdoing brought against Inspectors General.