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

Testimony of
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Washington, D.C.

TESTIMONY
OF
THE HONORABLE J. RUSSELL
GEORGE
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION
before
the
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Chairman Issa, Ranking Member Cummings, and Members of the Committee, thank you for the invitation to provide testimony on the subject of the Internal Revenue Service's (IRS) conference spending for Fiscal Years (FY) 2010 through 2012.[1] The Treasury Inspector General for Tax Administration, also known as TIGTA, plays a critical role in ensuring that the approximately 99,300[2] IRS employees who collect over $2.1 trillion in tax revenue each year, process over 147 million individual tax returns, and issue approximately $333 billion in tax refunds, do so in an effective and efficient manner while minimizing the risks of waste, fraud, and abuse.

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

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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 March 23, 2013.
[3] TIGTA, Ref. No. 2013-10-037, *Review of the August 2010 Small Business/Self-Employed Division's Conference in Anaheim, California* (May 2013).

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

RESULTS OF REVIEW

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

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

APPROVAL, FUNDING, AND ACCOUNTING FOR ANAHEIM CONFERENCE EXPENSES

According to IRS management, this conference provided a unique opportunity for leadership development, skills sharing and collaboration on key issues. While the IRS was planning the conference in 2010, the IRS's procedures required that any conference that was expected to cost more than $100,000 be pre-approved by the Deputy Commissioner for Operations Support. The Anaheim conference was approved, as required, by the Deputy Commissioner for Operations Support as well as the Deputy Commissioner for Services and Enforcement. The request approved by the Deputy Commissioners was for a Small Business/Self-Employed All Managers CPE.

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

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

ANAHEIM CONFERENCE PLANNING

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

CONFERENCE EXPENSES AND ITEMS GIVEN TO ATTENDEES

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

Conference Expenses

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

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

- $29,364 in per diem[4] expenses authorized by the Commissioner, SB/SE Division for employees who worked in the Anaheim area. The IRS advised us that a total of 38 local IRS employees stayed at the hotels and incurred per diem expenses. We identified seven additional local area employees that claimed per diem expenses. IRS travel guidelines allow employees on official travel more than 40 miles from both their official duty station and residence to claim per diem expenses. These guidelines outline several circumstances that may justify an exception, such as when an employee is attending training or a conference and the location is at least 30 miles from both their official duty station and residence. Our research indicated that the posts of duty for some of the employees were within 30 miles of the conference location. In its management response, the IRS

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

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

- More than $44,000 in travel costs for IRS employees who staffed booths in an "information corridor," *i.e.,* exhibitor hall that was staffed by representatives from various offices within the IRS to share information on their services and share hands-on demos with meeting participants. Forty-two IRS employees traveled for this purpose.

- More than $64,000 in gifts and promotional items provided to attendees. This includes approximately $27,000 in promotional items provided at the information corridor booths. Items given away at the conference included travel mugs, pens, clocks, and brief bags with the logo "Leading into the Future."

Hotel Concessions

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

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

- Presidential Suite at the Hilton - the Deputy Commissioner, SB/SE Division stayed five nights in a presidential suite at a cost of $135 per night. However, the room retailed for $1,499 per night.

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

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[5] Upgraded rooms included a variety of rooms such as studio suites, two bedroom suites, and presidential suites.
[6] The letters of intent were agreements signed between the IRS and the hotels documenting services provided by the hotels.

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

Actions Taken Since the 2010 Conference

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

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

In May 2012, the Office of Management and Budget issued guidelines[7] stipulating that agencies may not incur net expenses greater than $500,000 for a single conference, and agencies must publicly report (on their official website) all conference expenses in excess of $100,000. Lastly, Department of the Treasury guidance implemented in November 2012 further requires that any conference hosted or sponsored by Department of the Treasury bureaus costing $250,000 or more must be approved by the Secretary of the Treasury. In addition, the use of event planners (used for assistance in site selection) must now be approved in advance by the Department of the Treasury's Office of the Assistant Secretary for Management and Chief Financial Officer.

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

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

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

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

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

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.