

United States Senate Committee on Finance

For Immediate Release
Thursday, July 13, 2006

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SENATORS QUESTION TREASURY NOMINEE ERIC SOLOMON ON PROBLEMS WITH IRS ELECTRONIC FRAUD DETECTION SYSTEM *Serious problems with system redesign currently being investigated by Inspector General*

Washington, D.C. – U.S. Senators Chuck Grassley (R-Iowa) and Max Baucus (D-Mont.) today questioned Eric Solomon, currently nominated to be Assistant Treasury Secretary for Tax Policy, about serious problems with the redesign of an electronic fraud detection system (EFDS) at the Internal Revenue Service. These problems resulted in fraudulent returns and refunds not being identified. An investigative report on the matter is due for completion soon by the Treasury Inspector General for Tax Administration (TIGTA).

In his question to Solomon, Grassley said he and Baucus recently sent a letter to the IRS on the tax gap and noted that the IRS has been unsuccessful in implementing a new web-based version of its electronic fraud detection system (EFDS) database for the past two filing seasons. Grassley said the IRS, from the beginning of the project, didn't appreciate the risks of the new system and failed to properly fund the project. This resulted in the lack of proper technical oversight throughout the life of the project. Grassley said the IRS also failed to learn from mistakes in terms of inaccurate reporting by the contractor throughout the entire process.

“Despite known inaccurate reporting, it is our understanding that the IRS is still working with that same contractor today,” Grassley said to Solomon. **“The result of this project is that the EFDS has been greatly compromised, with substantial tax dollars lost. I would like your commitment to look into this situation and to demand accountability from the IRS. The IRS has had a multitude of problems with IT contracts in the past and has wasted a huge amount of money on projects that have not lived up to expectation. It is my understanding that approximately \$20.5 million was spent on developing this new web-based EFDS, and the web-based system never materialized. The IRS needs to be more effective in monitoring contractor performance. Can you commit to me that as Assistant Secretary of the Treasury for Tax Policy, you will look into improving the IRS oversight of IT contractors so that the government’s interests are better protected from waste?”**

Solomon replied that he was committed to work with IRS Commissioner Mark Everson to resolve this problem.

In further questioning, Baucus said, **“The IRS has kept this committee in the dark about the failure of this program to work. Do you think it’s appropriate for the executive branch to inform the Congress about sensitive matters before they become national scandals? Because this is about to be a national scandal... Will there be any fraud detection system in place for the 2007 filing season?”**

Solomon replied that he hoped a system would be in place and that he intended to talk to Everson about the issue, noting that the IRS shares Baucus’s concern.

“I’m sure they share the concern, but I’m more concerned why they haven’t done more about it and why they haven’t kept this committee more informed about it so that this committee can help solve it,” said Baucus. **“It’s deeds, not words. We’ve got to get solutions here.”**

The Finance Committee learned of the problems with the fraud detection system while investigating a complaint from the National Taxpayer Advocate that the IRS was freezing taxpayer refunds owed to lower-income Americans without proper notification. Subsequently, the Finance Committee was informed by Senate appropriators that the problems were even greater than initially realized and received a briefing on the problem from TIGTA.