



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

## MEMORANDUM

To: Reporters and Editors  
Re: IRS, electronic fraud detection system  
Da: Friday, July 14, 2006

Sen. Chuck Grassley, chairman of the Committee on Finance, yesterday questioned Eric Solomon, currently nominated to be Assistant Treasury Secretary for Tax Policy, about serious problems with the redesign of the 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). Today the IRS acknowledged these problems. Grassley made the following comment on today's IRS announcement.

“The IRS continues to rely on a contractor that for the past two filing seasons couldn't deliver what it promised and accepted \$20.5 million to deliver. Because of this contractor, the IRS' poor oversight of that contractor, and the IRS' own poor judgment, the IRS lost as much as \$320 million over this botched project. That's money down the drain. TIGTA might estimate an even bigger loss. Adding insult to injury, the IRS had serious concerns about the implementation of the web EFDS long before the 2006 processing year for 2005 returns, yet trusted the contractor to make it work. That trust was misplaced. I also don't appreciate the IRS' implication that Congress knew about this foul-up. My committee, which has exclusive Senate jurisdiction over the IRS and tax policy, learned about this mess through back channels, not from the IRS. I wonder if the IRS ever would have come clean if congressional committees hadn't started looking into the issue. I hope there isn't a next time, but if there is, I expect the IRS to come to us the minute there's a problem, especially when so much money is at risk. I might have more patience if this were the first time the IRS had a bad experience with a computer contractor, but this isn't the first time. It's far from it. If we really want to fight the tax gap, the IRS needs to get a handle on computer technology once and for all.”