

NOMINATION OF SAMUEL W. BODMAN

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

ON THE

NOMINATION OF

SAMUEL W. BODMAN, TO BE DEPUTY SECRETARY, U.S. DEPARTMENT
OF THE TREASURY

FEBRUARY 10, 2004



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**NOMINATION OF SAMUEL W. BODMAN, TO BE
DEPUTY SECRETARY, U.S. DEPARTMENT OF
THE TREASURY**

TUESDAY, FEBRUARY 10, 2004

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

The hearing was convened, pursuant to notice, at 10:07 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the committee) presiding.

Also present: Senator Baucus.

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

The CHAIRMAN. Senator Baucus and I are happy to call this hearing to order.

We are here for the purpose of welcoming, questioning, and hearing from Mr. Bodman, nominated by the President to serve as Deputy Secretary of the Department of Treasury.

Throughout his long and distinguished career, Mr. Bodman has held a number of high-ranking posts in the private sector, and mostly recently at the Department of Commerce. He has a proven track record of successfully managing large and diverse organizations, such as he will be called upon to do in this very important post in the Department of Treasury.

An engineer by training, Mr. Bodman began his career as a professor of chemical engineering at the Massachusetts Institute of Technology. He later served as president and chief operating officer of Fidelity Investments.

Following his tenure at Fidelity, he served as chairman and chief executive officer of Cabot Corporation. In this post, Mr. Bodman successfully managed a large and diverse company, with operations throughout the world in about 25 countries.

For the past two and a half years, Mr. Bodman has served as Deputy Secretary of the U.S. Department of Commerce. Based on this experience, I am confident that Mr. Bodman has much to offer and will serve the Department well. We look forward to working with him in this capacity.

Senator Baucus?

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

Senator BAUCUS. Thank you, Mr. Chairman.

Just a couple of words here. First, this committee needs to confirm a very capable and well-qualified deputy, and I think we are going to be doing that very quickly.

Mr. Bodman has been nominated to serve as deputy in a position vacant for nearly a year. The Department desperately needs your leadership, Mr. Bodman. That is why I am very pleased that the President has nominated you and that you are here before us and will be confirmed, hopefully, very quickly.

Your experience is very important and helpful in leading Fidelity and Cabot in the past, and most recently the deputy of Commerce, where you are quite highly acclaimed from the reports I am getting. You have a reputation as someone who has fixed companies that have fallen into trouble in the past, and that is always helpful.

According to a 2002 Gallup survey of Treasury employees, 78 percent of Department staff are disengaged from their jobs. That means that only 22 percent of the employees at Treasury are actively engaged in what they are doing. Who knows how accurate that is, but there is probably more than a kernel of truth in it. It is clearly something that has to be addressed.

The sentiment that the Department is adrift is also echoed in an August, 2003 New Republic article entitled, "Buried Treasury." The article details the use of career Treasury economists and lawyers for political ends. I think this is unprecedented.

Treasury has such a sterling reputation, and has had in the past. It is extremely important that be maintained that employees not be used for political purposes. I have no doubt that using Treasury career employees in this way hurts morale.

I look forward to hearing from you on what you expect to do to help set the Treasury Department and its employees on the right course. The American taxpayers deserve a Treasury Department with employees who are working up to their potential. In these tough economic times, the country can afford no less.

You also, Mr. Bodman, have significant challenges in the policy area. The President's budget shows a budget deficit of \$521 billion. The IRS notes that they neglect to collect \$310 billion every year, including close to \$18 billion lost to corporate tax dodges.

Others have suggested that these numbers are too low. It is essential that the Treasury Department and the IRS begin to take enforcement of our tax laws seriously. I am interested in hearing from you today about the administration's plan to beef up enforcement of our tax laws.

In addition to enforcement of our tax laws, the Treasury also has the responsibility to stem the flow of terrorist financing. The Chairman and I sent a letter to the Office of Foreign Assets Control in December, inquiring about how well they are performing their duties and about their progress on some of the changes that the Inspector General at Treasury has recommended. I understand that the Department is providing a full response to most of the questions, and I appreciate that.

Today, I would like to hear your opinion on the effectiveness of that office, that is, the Foreign Assets Control, the Financial Crimes Enforcement Network, and Treasury's coordination with other agencies.

I would also like to hear what improvements you think can be made to make sure that terrorists do not have the money to carry out their plans.

Finally, there is one more issue, and that is Cuba. The Chairman and I recently asked the Office of Foreign Assets Control to identify for us how they allocate their limited resources.

As I noted, they have very serious responsibilities, that office. It plays a key role in our war against terrorism. They are an agency that follows the money. They were to impede financing for terrorist activities, drug trafficking, and also weapons of mass destruction.

So I was appalled, frankly, when the Office of Foreign Assets Control reported to the committee that it spends one-sixth of its resources on keeping American citizens from traveling to Cuba.

In a time when we are at war with Iraq, and the troubles in Afghanistan, when our soldiers are being shot at every day, when our citizens face very real dangers from Al Queda and we also face massive budget deficits, this incredible waste of resources, I believe, is unconscionable.

I look forward to working with you. That is our job here. We do take it very seriously. I appreciate your dedication, Mr. Bodman, your experience, and your willingness to take this on.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Baucus.

We will now go to your statement, anything you want to open with. If you have a real long statement, you can put in the record and summarize any way you can. The time now is yours, Mr. Bodman.

STATEMENT OF SAMUEL W. BODMAN, TO BE DEPUTY SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Mr. BODMAN. Thank you, Mr. Chairman, Senator Baucus. I have a short statement for the record, and I will make it even shorter in order to summarize it for you.

The CHAIRMAN. Something we normally do here that I forgot. If you have friends or family that are with you that you would like to introduce to the committee, now would be an appropriate time to do that.

Mr. BODMAN. Thank you. I would like to introduce my wife, Diane, in the blue dress on my immediate left who is here. She is the light of my life and I am very proud to have her here.

Senator BAUCUS. Diane, why do you not stand so we can give you a round of applause.

[Applause.]

Mr. BODMAN. Thank you, sir.

I am very honored to be the nominee for this post. I am very grateful to Secretary Snow for the confidence he has shown and for supporting my transition from the Commerce Department to Treasury. I have had the privilege of serving this administration since 2001, so about two and a half years or so.

I have had the good fortune to work closely with a number of members of this committee, and I look forward to a very productive relationship with the committee, sir, on an ongoing basis.

Just to summarize, briefly, my own background, I was born in Chicago, raised in Illinois in a small town, although I spent most

of my adult life in Massachusetts. I went there as a graduate student and ended up staying 40 years. I never left. I was, first, a teacher, then managed the two companies that the Senator has already described.

So, I have had some experience in the financial services industry, as well as managing an industrial company, a manufacturing company with operations in basically all parts of the world.

So, that was a revealing experience for me, and frankly something that has proved to be very useful in my work in the Commerce Department. Having someone who has been on the ground and understands some of these issues creates a rapport that I think is important.

Three years ago, I resigned my job at Cabot and Diane and I moved here to Washington so that I might serve in this administration. In a collective fashion, my experiences have instilled in me a very strong belief in the American free enterprise system.

The free market, the private sector does the inventing, does the increases in productivity, the job creation that really moves our Nation forward. The time I have spent in Washington has reinforced my belief that government has a very crucial role to play in maintaining our economic health.

As the President likes to say, government does not create wealth, the private sector does that. But government must create an environment so the private sector can do its job. The job is, oftentimes, hopefully, a successful one where jobs are created and business is improved.

But it also is one that has the flexibility necessary for companies to fail and to start over again, and that is one of the beauties that our system has, as well as one of the challenges for those of us in government.

I have had the privilege of working with many people in the Commerce Department and I am very grateful to them. A number of them are here today as well. Under Don Evans' leadership, we have worked very hard to open markets all over the world, to promote free and fair trade, and to protect intellectual property.

We have saved lives, we have saved homes and businesses with more accurate and timely severe weather forecasts from our friends at NOAA. We have promoted economic development and job growth throughout this country. I am very proud of the work we have done at Commerce and the fact that we do have a strengthened management and esprit de corps there that is quite strong.

There is a lot more to be done, obviously. If I am to believe—and I do not know the details of the Gallup poll that the Senate cited—if there are issues of the sort that you described, I will pledge to you that I will do my very best to understand what they are and to attempt to deal with them.

The Treasury is at the forefront of many critical policy challenges: stopping the flow of funds to terrorists around the world, reforming and modernizing the IRS, ensuring that our current economic momentum translates into lasting prosperity for our citizens. I will do my best, I pledge to you, if I am confirmed in this job, to see to it that we honorably serve those ends.

I am very proud to be here. I am very proud to be a member of President Bush's administration and represent Secretary Snow at

this hearing and to have come from the environment of the leadership of Don Evans over at Commerce.

I very much look forward to working with this committee and I would be very pleased to take any questions that you may want to direct at me. Thank you, sir.

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

The CHAIRMAN. First of all, three questions that we ask every nominee that comes before the committee.

One, 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. BODMAN. No, sir, there is not.

The CHAIRMAN. Two, 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. BODMAN. No, sir.

The CHAIRMAN. Lastly, 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. BODMAN. I certainly do agree, sir.

The CHAIRMAN. I do not think I have any surprises for you in questions, but let me go through a few questions, then I will turn to Senator Baucus.

The Finance Committee is very concerned about the administration's effectiveness in fighting the war against terrorism financing. The Department of Treasury, of course, is critical in this area.

I believe, because of its critical role, the Department of Treasury must remain the lead in senior interagency meetings on terrorism financing. I would ask for your general view about combatting terrorism financing, and specifically about Treasury remaining the chair of senior interagency meetings on this subject.

Mr. BODMAN. Mr. Chairman, it is clear, based on my visits with personnel in the Treasury Department, that the Department has played a very strong role in stopping the flow of funds to terrorists around the world.

The OFAC offices, the FINSSEN office or bureau, have been, in my view, effective. There have been increases in budgets that have been made available. Both of these are parts of the Treasury organization and I think they have, from what I can tell as an outsider, done a good job and have played a very important role.

I cannot really speak to the issue of the role of a Treasury official in terms of its preeminence vis-a-vis the other departments of the government. What I can pledge to you, sir, is that I believe I have earned my spurs in dealing with my counterparts in other parts of the government.

I do believe that there will be a certain element of respect that comes from the experience that I have had in working in this administration, and I do believe that we will be listened to and we will play an active role, which we need to play. We have the wherewithal to do it.

The CHAIRMAN. Could I ask you, since you are not able to give a definitive answer on the main point of my question about the

chairing, for you and people in your Agency to give some consideration of that, maybe, and answer in writing? Maybe you can be more definitive if you have a chance to think about it for 24 hours or so.

Mr. BODMAN. I would be happy to provide an answer in writing, sir.

The CHAIRMAN. On another point, it is my understanding that you will be active in tax administration at Treasury and IRS. Of course, I welcome that and would ask you about that shortly. I want to focus, now, though, on the importance of nominees for the tax court.

The proper administration of the Tax Code depends critically on tax court. Specifically, that we have capable, knowledgeable judges sitting on that tax court. The long tradition of the tax court has been that, barring something very improper, that tax judges are re-appointed.

My understanding is that the reappointment of Judge Colvin was unanimously recommended by the administration's advisors at the Department of Treasury, and also by the White House Consul's Office. Yet, weeks have stretched into months and nothing has been done.

In addition, my colleagues—and specifically Senator Baucus and Senator Hatch—all wrote last fall supporting Judge Colvin, and we have basically not heard much. The administration, particularly Treasury, needs to show its commitment to good tax administration with words and deeds.

The appointment and reappointment of capable judges to the tax court as a priority for this committee and it should be a priority for the administration and for your Department or the Department you will be serving.

I know that you have been told I would raise this matter, so let me ask what guidance you can give the committee as we try to get the administration to concentrate on this appointment.

Mr. BODMAN. Mr. Chairman, I would observe that this is a presidential nomination and it comes from the White House with advice from Treasury, among other departments. At least, I believe that to be the case. Therefore, I would not presume to speak for the President on this matter, and I really cannot say anything further than that.

The CHAIRMAN. All right.

I raise the issue. I do not know what my posture might be, but you could expect people on this committee who are very concerned about this nomination to raise this issue with the White House, I suppose, since you say you cannot comment, and maybe have something to do with your nomination. I cannot say for sure. I mean, I think people need to take that into consideration.

On another point, it is my understanding that you will be active, as I said, in tax administration. In the past, I have worried that senior management at the Department of Treasury could not find the IRS, even though it has got that great big building down there on the corner of 11th and Constitution.

While we have good, energetic leadership at IRS, I think it is certainly a help to have additional hands at the oars, particularly senior management, where you are going to be.

I would ask, what are the priorities you see for yourself in the area of tax administration?

Mr. BODMAN. There are two areas that Secretary Snow has asked me to give first priority to in my time at Treasury, should I be confirmed. The first of those, you have already touched on, namely the question of terrorist financing, and understanding in greater depth than I do now the role of the Department in that arena.

The second of those is IRS, and to better understand what progress they are making in improving the operation of the IRS. I have had the good fortune of working with Commissioner Everson during his tenure at OMB prior to his taking on the assignment, so I do have knowledge of him. I hold him in high regard. I have visited with him on two occasions in preparation for this hearing.

I am encouraged, frankly, and have so reported to the Secretary by what I heard in my meetings with Everson. I have not really had time, nor has it been appropriate, to get into depth that.

But, first of all, their efforts in encouraging compliance, which take a number of forms dealing with reengineering audits, working on corporate, high-income, or offshore tax shelters, that sort of thing, where they have committed and increasing resources in the 2005 budget proposal that has recently been put forth.

Second, the area of increasing service or maintaining a very high level of service. I think it is fair to say, under Mr. Rossotti, who preceded Mr. Everson in this role, made a concerted effort to improve the service levels that our citizens should become accustomed to.

Most notably, there, I guess I would mention two things. One, are e-filings, which they have done a good job on. It strikes me we have a very substantial number of tax returns that are now filed electronically. Then, second, working with the taxpayer advocate that represents the average taxpayer, if you will, in dealing with issues before the IRS.

So the idea, as I see it, is to continue to maintain a high level of service on the one hand, while improving compliance on the other hand. Then, lastly, there is a significant effort under way in modernizing the technology involved in managing the IRS. It is fair to say, when compared with the private sector, the IRS is well behind where it should be.

Significant sums have been spent, I think between \$300 and \$400 million a year, for some period of time. I think it is fair to say that progress in modernizing the information systems has not progressed in a fashion that I would deem acceptable, nor has Mr. Everson. They have evaluated that.

In this area, Mr. Chairman, there is plenty of blame to go around. I think that the IRS has concluded that they, themselves, have not been as effective as they might be, that the contractor has not been as effective as they might be, and in particular that maybe they bit off too much and that they have tried to do too much all at one time. So, they have reduced it.

This has been reflected in the 2005 budget that has been proposed to reduce the expenditures and to focus more on what you might think of as the kernel of the problem.

So, I have been impressed with the effort that they put into it. I would expect to devote myself in some depth into understanding what kind of progress they are making and to hold them accountable for that.

The CHAIRMAN. I have just two more questions.

Mr. BODMAN. Yes, sir.

The CHAIRMAN. So as a follow-on then of your work about tax administration, I wanted to note, particularly, private foundations. I say this because I know that your family has a private foundation that I have been informed is run in a very proper manner, as is the case for most private foundations.

However, the newspapers have recently been filled with stories of serious and significant abuses of some private foundations. It is clear that there are far too many private foundations that are more intent on lining their own pockets than helping those in need.

We have all read about private foundation trustees being paid hundreds of thousands of dollars a year for doing little or no work, as well as staff getting outrageous salaries and benefits.

It is the poor who suffer when money meant for charities is spent on Persian rugs or \$200,000 weddings. I would ask for your response to these abuses and ask for your commitment that the Treasury will work with us to end this problem.

Mr. BODMAN. I will certainly commit to you, sir, that I will do everything possible, first, to understand this problem, and then to deal with it. I would observe that this is one of the areas of the compliance effort that has been under way and has been articulated by the Commissioner, namely, the focus on tax-exempt, or entities of the sort that you described. So, it has been something that has been identified.

I am sure, like anything else, it is a matter of trying to set priorities as to where the best return for effort is on the part of members of the IRS. But I will certainly educate myself, which I had not been prior to being informed about this concern. I was quite surprised.

Apparently, a lot of this came from Boston and was reported duly in the newspaper there. I am no longer a reader of the Boston newspapers, so I was unaware of it until yesterday. I will certainly get myself educated and I will do my best to pursue the matter.

The CHAIRMAN. All right.

Then my last question deals with the delegation of custom authority from the Department of Treasury to the Department of Homeland Security. This was included in the Homeland Security Act of 2002.

During that time, I noted that Senator Baucus and I worked very hard with the administration and with the Committee on Governmental Affairs to make clear that we did not intend for a wholesale, or even large scale, delegation of revenue-related functions from the Customs Service to the Department of Homeland Security.

I understand that the Department of Homeland Security and the Department of Treasury have, on the whole, followed this intent in implementing delegation of authority.

Although a sunset review of the delegation of authority is not due to occur until February, 2008, I request that the Department

of Treasury continue to consult with this committee on a regular basis regarding the operation of this delegation and practice.

Mr. Bodman, would you see to it that the Treasury keeps this committee informed of any modifications to the measures already in place to implement this delegation of authority?

Mr. BODMAN. I would be happy to do so, sir.

The CHAIRMAN. Thank you very much.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

I am interested in your top two priorities, Mr. Bodman. According to the directions from the Secretary, they are terrorist financing and working to help IRS do its job.

That leads into a question I had and I raised during my statement. Namely, that the resources in OFAC, the Office of Foreign Assets Control, as I mentioned, between one-seventh and one-sixth is devoted to the travel ban on Cuba. Does that make sense to you?

Mr. BODMAN. Senator, I am of the belief that it is very hard for any part of the government to decide which laws should be enforced and which ones should not be enforced. The way I see my job here, if I am confirmed, would be to enforce all the laws for which I am responsible. This is one of them.

I have no problem with that, frankly, with respect to Cuba. I do believe that the efforts prior to yesterday, as well as yesterday's designations as described by the Secretary, are consistent with that statement. They are consistent with the fact that Mr. Castro has been a very oppressive dictator, has not helped the people of Cuba.

Senator BAUCUS. Is that more of a national security threat to the United States than following the money in terrorist financing?

Mr. BODMAN. I believe, sir, we can do both.

Senator BAUCUS. That there is poverty in Cuba? I mean, what is the relevance?

Mr. BODMAN. Well, I believe that we can do both. I cannot speak to the poverty in Cuba and how that might contrast with terrorist financing. I do believe that we are being effective, again, from what I can tell. I have not been there and I have not lived with this.

I appreciate your statement on this. I had understood before I came in here of your beliefs. I now understand them more clearly than I did before. I would be happy to look into it and try to understand it personally to a greater extent than I do now.

But I would observe that, based on the incomplete information which I have, I think they have done a very effective job, and continue to do an effective job in chasing the terrorist financial links around the world.

I would observe that OFAC has increased its personnel numbers over the last few years, from something—I think, if memory serves—like 70 or 80 up to 130 or 140. So, we have had a significant expansion in the personnel that are available to do this work. Most of those have been devoted to the terrorist financing effort, but I think we can do both.

Senator BAUCUS. How can you assure us that we are adequately pursuing terrorist financing, drug money trafficking, WMD financing, all from the jurisdiction of that office? How can you assure us?

Mr. BODMAN. Well, I cannot assure you, sir, personally, because I have not done the work at this point in time. I have not been

there. I will be very happy to dig into that personally and to come back to this committee, if requested, and to report to you on that matter.

Senator BAUCUS. Well, I would like that. In fact, I do not know whether it is a committee matter or not, but if you could personally, in a letter, meeting, somehow, just tell me at the appropriate time, once you know what the facts are, what is going on. That would make a big difference to me, and I think to a lot of American people, too.

Mr. BODMAN. If I am confirmed, sir, I will be happy to dig into that and do it. I have not had the opportunity to meet the people.

Senator BAUCUS. I appreciate that. It is just my impression that this is a misallocation of resources.

Mr. BODMAN. Yes, sir. I understand what you are saying.

Senator BAUCUS. And resources are scarce these days. We cannot afford misallocations.

Mr. BODMAN. I agree with that 100 percent, sir.

Senator BAUCUS. Good.

The CHAIRMAN. I would back the Ranking Member up on that point, not necessarily because I agree philosophically with where he is coming from on Cuba, necessarily, but because this committee has to be very concerned about the uses of resources.

Senator BAUCUS. Thank you, Mr. Chairman. Also, before I go further, I would like to concur with you about Judge Colvin. That is, he served for 15 years. I think he deserves another 15. We just have to get going here. There is no reason why his reappointment should be delayed.

Mr. BODMAN. I understand your view, sir.

Senator BAUCUS. Thank you.

I would like to turn a little bit to tax shelters.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. In November of last year, Secretary Snow gave a keynote address to the Tax Foundation. He discussed the President's six point plan to strengthen the economy, which included: make health care more affordable; prevent frivolous lawsuits; build a more affordable and reliable energy system; streamline regulations; open new markets; and make tax relief permanent.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. It is interesting to me, because the plan did not include any mention to curb abusive tax shelters, despite the fact that a rash of corporate scandals has weakened our Nation's economy, well known, certainly, at that time.

Unlike Secretaries Rubin and Summers, and to some extent O'Neal, Secretary Snow seldom mentions the need to combat deliberate tax cheating, in essence, all cake and no vegetables.

It is also interesting to me that your two top priorities somewhat conflict with or are different from those priorities that the Secretary gave as the President's top. They are not necessarily apples and oranges here, but top priorities to strengthen the economy. You mentioned that your top two priorities include terrorism financing, and also IRS strengthening.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. I would guess a lot of that would include any abusive tax shelters.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. Can you comment on that, please? How aggressive are you going to be, when the White House and Treasury, so far, have done very little in this area?

Let me just point out, very conservative estimates—this is a recent study commissioned by the IRS—are that the current cost to honest taxpayers of abusive corporate tax shelters range from \$14 to \$18 billion a year, with a total amount uncollected, income tax uncollected, over \$300 billion annually. That is based on 1988 data. It has got to be a lot more than that, now.

Just think what we could do with a little more than \$300 billion. Some would like to lower taxes. Some would like to spend it. Just think what could be done. And, more importantly, the message that would tell, if we could stop this, to honest taxpayers. As you know, we rely upon a voluntary system.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. My guess is, the more it is known, and it is known more widely, that a lot more is uncollected, there are fewer audits and so forth, that a lot of people are not voluntarily complying as much as they maybe were earlier.

Mr. BODMAN. Well, first, let me, if I may sir, tell you that I do not find it unusual that Secretary Snow would encourage me to spend time in areas that are different than the ones to which he gives attention.

That has been the case in my work in the Commerce Department, where I tend to define my job in many ways as working in those areas of management responsibility for the Department that are not being given the most attention by the Secretary, purely for the reasons that we are better off making sure that we have effective cover on both sides. Therefore, I do not find it surprising that the areas that I have been asked to spend time on are different than those that the Secretary has focused on.

Second, I would observe that there is an effort, as I alluded to before, of increased compliance efforts within the IRS. I do know that. I do know what the areas are on which they are focusing the effort.

I cannot, sir, attest to the quality of that effort because I simply have not been there and have not met the people who are doing the work on a day-to-day basis. I think the plans that they have and the programs that they have make a lot of sense and will get at many of the issues, sir, that you have identified.

I will certainly commit to you that, if I am confirmed, I will dig into that and will be happy to come back when I know more than I know at this point in time to report to you, sir.

Senator BAUCUS. Right. Some time ago, this Congress, regrettably, repealed something called TCMP, which was designed to address abusive shelters, but has since then—and I do not recall whether this is legislation or the IRS Commissioner—there is now a place called the NRP, the National Research Program, which replaces TCMP. Commissioner Everson has talked to me about that personally, and I think it is a good program. It is working pretty well. However, it needs resources. It needs focus. It needs a priority.

It is just my feeling that, thus far, this administration, and to some degree past administrations, for reasons that I do not fathom, have not spent sufficient time on abusive shelter, inversions, and collections. The number in all of those areas of abuses is rising all the time. Just think what you could do if you could take care of that and stop that. You would be a hero.

Mr. BODMAN. As the deputy in Commerce that has just seen the budget cut by 1 percent that was submitted in the 2005 budget, I understand the needs for funds within the government to undertake effective programs. I take your points and your comments very seriously.

Senator BAUCUS. I mentioned more specifically, a study recently commissioned by the IRS estimates that current cost to taxpayers of abusive corporate shelters ranges from \$14 billion to \$18 billion a year. That is a study the IRS commissioned. Do you have any idea how you might attack that? That is a separate problem. It is a subset of the bigger problem.

Your thoughts?

Mr. BODMAN. No. The only areas of which I am aware, this is in the corporate area, sir, that you alluded to.

Senator BAUCUS. Correct.

Mr. BODMAN. The area that I am aware of is one that I think Chairman Grassley has been in the forefront of, the so-called silos.

Senator BAUCUS. We are working on that. We are working in silos. It is a big one.

Mr. BODMAN. That is an important matter that this committee, I think, has shown a lot of leadership on, from what I can tell, and should be congratulated for having identified them.

I can tell you that when someone comes into the Treasury at a high-level position, the briefing materials include that as a very high-level item. So, that is, for example, an area that we hope can be dealt with legislatively. But I managed two companies, sir. Both, in my judgment, even with the benefit of hindsight, were scrupulous in the way they undertook the responsibilities of the taxes we paid and the approach to it.

Senator BAUCUS. But not all companies are as scrupulous.

Mr. BODMAN. I understand, sir.

Senator BAUCUS. So, that is the problem we are dealing with here.

Mr. BODMAN. I understand a hundred percent. I am just telling you, at least I come from this background.

Senator BAUCUS. Well, that is helpful.

Mr. BODMAN. Therefore, to the extent that others are not following that standard, there rises a certain emotional interest in seeing to it that they do. So, I will certainly—

Senator BAUCUS. If you do that, I am just asking the question.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. Part of the administration's plan is, in dealing with shelters, to reallocate resources within the IRS. That is, shifting resources clearly means, if it is more to address abusive shelters, this money is being taken away from somewhere else, like audits, for example.

Mr. BODMAN. Right. Again, I cannot speak to that. I can tell you that I believe there has been request for additional resources on

the compliance side. At least, that was my understanding as I was getting briefed on this. So, to the extent that it is a reallocation, I cannot speak to that, sir.

Senator BAUCUS. I appreciate that.

I mentioned the morale problem.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. It sounds pretty serious.

Mr. BODMAN. Well, the numbers you gave were not very encouraging.

Senator BAUCUS. I must say, though, they are somewhat similar to the responses of employees in other companies nationwide.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. I think it is even in the private and public sector, but a little worse at Treasury.

Mr. BODMAN. Yes, sir. My only responsibility, if I am confirmed, sir, would be to deal with the issues at Treasury. Treasury is a great department. It is one of the crown jewels, should be one of the crown jewels, of this administration.

I think that it is fair to say, where one has not had an operating officer living and working within the building, that it would not be a surprise that perhaps morale is not what it should be. That would not be a surprise. I cannot speak to what morale is, sir, because I am not living in the building and I do not know.

To the extent that the problems that you mentioned are real—and I am not suggesting they are not, but to the extent that I find them to do so—I have had a record of being able to improve morale in other organizations that I have worked with. It does take time. It is not something that can be done by a simple act.

It involves a consistent commitment to the welfare of the people such that the people who work for an organization know that the person or persons responsible for it care about them. That has been a hallmark of what I have done in my life, and I would continue to do that in this stop.

Senator BAUCUS. I appreciate that.

To be totally fair, and I am trying to be as objective as I possibly can, there is a perception in this town that more agencies, government agencies, are receiving more direction from the White House to be more political.

That is, in addition to or instead of doing substantive work, policy work, that a good number of agencies and officials are getting pressured to be more political, that is, to try to help the party in power as opposed to doing solid public policy work.

Have you heard that? Are you aware of that?

Mr. BODMAN. No, sir, I have not. More importantly, I have not found that to be the case, at least in my dealings at Commerce.

Senator BAUCUS. Well, you are not confirmed, yet.

Mr. BODMAN. No, no, sir. I meant in Commerce. We do have matters where we are working with the White House, and I have found, at least my interactions on a wide variety of subjects, Commerce deals over an even wider range of activities than the Treasury does. I have not found that situation in terms of my work there, sir.

Senator BAUCUS. Have you read the new book out by Ron Susskind on Secretary O'Neal?

Mr. BODMAN. No, sir, I have not. I have read reviews of it, but I have not read the book.

Senator BAUCUS. I have read it. I encourage you to read it. It is instructive at many, many different levels, kind of how government runs, a little bit. I am not suggesting it to be critical of the administration.

I am suggesting it more to get a better feel and understand of how government works and, as Secretary O'Neal points out, a very strong need for analysis, for getting the facts, analyzing the facts, and reaching one's opinion on the facts as process. Very poor and distinct from politics. Your job is to get the right information, the right facts for the right public policy.

Mr. BODMAN. I take your point, sir. I would only respond by telling you that, sir, I am an engineer.

Senator BAUCUS. Well, that is helpful.

Mr. BODMAN. I do try to deal with facts. Sometimes the facts are elusive.

Senator BAUCUS. That book will give you great insights that are going to be very important for you to be successful.

Mr. BODMAN. I appreciate your insights, sir.

Senator BAUCUS. I strongly suggest you read the book.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. Mr. Bodman, just a couple of points about, we have a great Senator here called Senator Robert Z. Byrd.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. He is the author of a couple of Byrd amendments.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. In fact, there is a third amendment. As a member of this committee years ago, Harry Byrd.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. So, there are three Byrd amendments. I am referring to one, and that is the Byrd amendment essentially which we enacted in this Congress which says that dumping of subsidy revenues essentially are redistributed to the injured domestic industries.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. This is under attack at WTO, et cetera. I would just like your position on the Byrd amendment. What do you think?

Mr. BODMAN. Well, my position is, sir, that it is the law, and I obey the law. So, to me, that is a Congressional matter. Whatever I am presented, I will deal with. I do not know what to say, other than that.

Senator BAUCUS. All right.

Back to collection or IRS enforcement.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. Former IRS Commissioner Rossotti reported that 60 percent of identified tax debts are not pursued. That is, we know where those people are. We know their names. We know where they live. We have their telephone numbers. But we are not collecting the taxes and the penalties that they owe. The amount, I think, is in the nature of \$15 billion. Why? Do you know about that?

Mr. BODMAN. No, sir. I have not heard that that was what Mr. Rossotti's position was.

Senator BAUCUS. No. It is a fact. A large amount of uncollected dollars is out there uncollected.

Mr. BODMAN. Yes. No, I understand. That, it seems to me, is consistent with some of the other observations that you have made during this hearing, sir. I said before, and I say it again, I take your comments very seriously. If I am confirmed, I will do my best to dig into it. But I do not have any comments on that, other than it is not right. I agree with you.

Senator BAUCUS. And 56 percent of identified taxpayers with income over \$100,000 under report taxes. That is not pursued, either. I have a hunch a lot of this is resources, inadequate resources.

To be honest, Mr. Bodman, many times you hear administrations—it is all administrations, in my view, in the last 10, 15 years—mouth the words, you bet, we have got to enforce the laws and beef up IRS.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. But that is about as far as it gets.

Mr. BODMAN. Well, I would like to think that one of the reasons the President nominated me for this job is that we have been able to show results in the Commerce Department, and I hope we can start down that path in the Treasury Department. I will do my best to do that.

Senator BAUCUS. I just want to say, it is a huge problem and it is getting to be more and more of a problem every year. I have been in this town a few years. I can feel it. I can sense it. It is happening. At some point, something is going to break.

Now, I am not saying this is going to be the trigger which causes a large lack of confidence in the stock market or foreign investors in America because of the huge debt, or whatnot. Who knows what the trigger is going to be unless something is done about all this.

But there is going to be a trigger somewhere, and I doubt this will be the one. But it is getting worse. That is, the inability, the failure of our government to collect and enforce the laws against those people who are abusing it in terms of ripping off honest taxpayers.

Mr. BODMAN. Yes. I am confident that, perhaps through your and the Chairman's comments to Mr. Everson when he came through this committee, I know that this is foremost in his mind. I am aware of that. I am aware that he is taking steps that he believes will lead to an improvement in the situation that you described. I know that.

Senator BAUCUS. I do, too. He is working very hard. He is a very earnest, hardworking guy.

Mr. BODMAN. Yes, he is. What I will commit to you, sir, if you confirm me in this job, I will go to work with him to try to deal with it. First, to try to understand the problem, which I do not profess to understand today, and then to try to go to work to make some inroads in the problem. To say that we are going to solve it in the next month or 6 months, or whatever, is probably premature. But I think we ought to make some progress.

Senator BAUCUS. I appreciate that. My sense is, you will try very hard. My sense is, you will run up against a stone wall, OMB,

somebody else in the administration. No, no, no. Let that go. That is not as important. It all begins at the top. You are a good person. You are going to work real hard. But you are working for people and they make some bigger decisions.

I just urge you to be almost as mean as a junkyard dog when you are dealing with those people, and maybe even resign if you think that they are disabusing you, if they are not being respectful of what has got to be done, in your judgment.

That is not a tradition in this country, but somebody has got to make a statement somehow, somewhere. This problem is just growing by leaps and bounds. People are not paying their taxes. There are fewer and fewer audits and more and more people ripping us off.

It has been at least 2 years since Enron, Tyco, and all of these other problems developed. We have not passed any anti-shelter legislation yet, and that is partly our fault. But it is also partly can be left at the door at the administration, because they are not pushing us that hard to get the stuff done.

Inversions legislation. It is an outrage to me that American companies, in order to avoid taxes, set up their operations offshore. I thought they were Americans. They are not Americans if they do that. If they do that, they should not enjoy the privileges of being Americans.

I will get off my soapbox here. But you have got a huge problem, and therefore you have a huge opportunity. I urge you to take advantage of the opportunity and just go for it.

Mr. BODMAN. Well, I appreciate everything that you have said, Senator. I will do my best, if you confirm me, to seek this out. I do not know that I would use the term "junkyard dog," and I do not know that I would threaten to resign.

Senator BAUCUS. That term is probably not advisable. But you get the point.

Mr. BODMAN. I do get the point. Yes, sir. I have had a record of having achieved some success in working with my friends at the Office of Management and Budget and getting the kind of support for worthy endeavors, and particularly those areas that I deem to be the top priority of the Department. This seems to be, if I may say, your top priority, at least as I hear you, and I take your comments seriously.

Senator BAUCUS. We have all got tons of top priorities.

Mr. BODMAN. I understand. I understand. But, at least as I understand it today, that seems to be today's top priority.

Senator BAUCUS. That is the top priority du jour. That is right. It is very important.

Mr. BODMAN. And I will do my best to chase that down and to tell you I would be happy to come back here, if you would be willing to spend the time, and tell you how we are doing. I would be happy to do it.

Senator BAUCUS. I would love to.

Why do you want this job?

Mr. BODMAN. I came here to serve my country. I have been the beneficiary of a good deal of success in my life. I had, as I like to describe to my friends here, a perfectly good job running a company. I was 61 or 62 years old, and I was very well-compensated,

in my judgment, as I should have been because we did a great job with the company.

I had an opportunity to serve my country and to give something back. I came here with that as an objective. I believe that the fact that I have been nominated for this job is a reflection of the fact that perhaps some people view the fact that I have been successful in Commerce. So, I am happy to continue to serve my country. That is why I came.

Senator BAUCUS. How do you want to be remembered when you leave? We are all going to leave.

Mr. BODMAN. Absolutely. These are all rent-a-jobs. We are here for a period of time, then we are out of here. I, frankly, do not think about how I want to be remembered. It is not important to me. What is important to me is knowing in my heart that I came here and I made a difference.

I do not think that the people of the Commerce Department, 5 years from now, will look back and say, well, Sam Bodman did this, or did that. I may be wrong about that, but I do not think so. My goal is to serve my country. That is why I came. That is strictly it.

Senator BAUCUS. That is a good way to be remembered.

Mr. BODMAN. Well, if that is how I am remembered, then that would be fine.

Senator BAUCUS. Well, I wish you the greatest luck. These are huge challenges.

Mr. BODMAN. Thank you, sir.

Senator BAUCUS. I know I speak for the Chairman when I say we are here to work with you.

Mr. BODMAN. Thank you very much.

Senator BAUCUS. That is the only way solid things get done.

Mr. BODMAN. I appreciate your support. Thank you.

Senator BAUCUS. Mr. Chairman, I might also ask to put in the record this Gallup Organization Executive Summary.

The CHAIRMAN. All right.

Senator BAUCUS. Thank you.

The CHAIRMAN. Without objection, so ordered.

[The information appears in the appendix at page 39.]

The CHAIRMAN. I have no further questions, unless some come up that we submit to you in writing. Remember, a lot of members of this committee could not become because of conflicts.

Mr. BODMAN. Yes, sir.

The CHAIRMAN. So, you may get some questions in writing from them. I ask that you respond as quickly as you can.

Then, because I think it is fair to the Senate that all questions be answered, unless there is some political reason, using that as an excuse to hold up your nomination for no good reason, so please cooperate with the committee on that.

Senator Baucus?

Senator BAUCUS. Yes. Thank you, Mr. Chairman.

I think you will find, Mr. Bodman, that we are very open, the Chairman and I, to conversations, ideas, and whatnot. Just give us a call on anything that you think warrants it, and so forth. We mean it. We believe in this process, too.

Mr. BODMAN. Yes, sir.

Senator BAUCUS. We just want to let you know that we are available.

Mr. BODMAN. Thank you. I appreciate that very much. That means a lot to me to know that. I want you to know, sir, that I mean it, too.

Senator BAUCUS. I can tell. Thank you.

The CHAIRMAN. Together, we try to make the Senate work as far as the consideration of the work of this committee, and make this committee work. To the extent to which we can also help your Department do its job, since we have oversight over that Department and particularly since we almost demand that you cooperate with us to get information we need, we should be ready to do that in return. So, feel free to call upon us.

Mr. BODMAN. Thank you so very much.

The CHAIRMAN. Thank you very much.

Mr. BODMAN. Thank you very much.

The CHAIRMAN. Hearing adjourned.

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

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF SAMUEL W. BODMAN

Mr. Chairman, Senator Baucus, Members of the Committee, thank you for the opportunity to appear before you today. I am honored to be President Bush's nominee to serve as Deputy Secretary of the Treasury Department, and I am most grateful to Secretary Snow for his confidence and support. As Deputy Secretary of the Commerce Department, I have had the privilege to serve President Bush and the American people since 2001. In that position, I've had the good fortune to work closely with several of you, and I look forward to what I know will be a productive relationship with this Committee.

I am most pleased that my wife, Diane, is here with me. I am the proud father of five children and eight grandchildren, and I'm blessed to have their continued support.

I was born in Chicago and raised in a small Illinois community, but I spent most of my adult life in Massachusetts. I went to Boston as an MIT graduate student and ended up staying for 40 years. I started out my career as a professor of chemical engineering at MIT. In 1970, I joined a then-fledgling investment firm called Fidelity Investments. During my seventeen years there, the last ten as president, I helped orchestrate the transformation of a small company into one of the nation's largest financial service enterprises.

Following my time at Fidelity, I spent fifteen years serving as Chairman and CEO of Cabot Corporation, a specialty chemical manufacturer and one of Boston's oldest industrial companies. Operating 45 manufacturing plants in 25 countries, my colleagues and I faced many of the challenges that confront American companies in today's global marketplace—from international trade, to technology integration, to safety and security.

Three years ago, I resigned my job at Cabot; and Diane and I moved to Washington so that I might serve as Deputy Secretary of Commerce. Collectively, my experiences have instilled in me a strong belief in the power of the American free enterprise system, the engine of innovation, productivity, and job creation that drives our nation forward. And my time in Washington has reinforced my belief that government does have a crucial role to play in maintaining our economic health. As President Bush has said many times, government does not create wealth; the private sector does that. But government must create an environment that encourages the entrepreneur, that allows companies to plan, that provides the flexibility necessary to create and grow, and sometimes, to fail and start over.

It has been my privilege to work with the fine men and women of the Commerce Department to advance this vision for government. Under Secretary Evans's leadership, we have worked hard to open markets around the world, to promote free and fair trade, and to protect intellectual property. We have saved lives, homes, and businesses with more accurate and timely severe weather forecasts. We have promoted economic development and job growth throughout this nation. And, we have strengthened the management of our programs and Department.

There is more work to be done, and that's why I am so pleased that President Bush has extended the opportunity for me to continue my public service at the Treasury Department. The Treasury is at the forefront of many critical policy challenges: stopping the flow of funds to terrorists around the world; reforming and modernizing the IRS; and ensuring that our current economic momentum translates into lasting prosperity for our citizens.

I'm proud to be afforded the great opportunity to serve the American people with President Bush, Secretary Evans, Secretary Snow, and now this Committee. With that, I would be pleased to take any questions that you may have.

RESPONSE TO A QUESTION FROM SENATOR GRASSLEY

Question. How is the inter-agency process for dealing with terrorist financing being organized? Will Treasury continue to lead this inter-agency effort?

Answer. It is my understanding that the structure and functions of the inter-agency policy coordinating committee on terrorist financing are under review by the National Security Council and the interagency members of that group. Since its inception, this committee has been dedicated to targeting identified terrorist supporters and financiers and determining the best course of action to take against those identified targets and risks. Treasury initially led that effort because of its equities in all of the key areas and elements of the overarching campaign against terrorist financing. Moving forward, the restructured committee process will likely place the NSC, which is responsible for coordinating all U.S. Government counterterrorism activities, in the central coordinating role, but Treasury will continue to serve as a major player in this interagency policy and decision-making process.

RESPONSES TO QUESTIONS FROM SENATOR BAUCUS

Question 1. Former IRS Commissioner Rossotti reported that 60 percent of identified tax debts are not pursued. Seventy-five percent of taxpayers who did not file a tax return are not pursued. Fifty-six percent of identified taxpayers with income of \$100,000 or more and underreport tax are not pursued. When you are confirmed, how would you adequately demonstrate to the American taxpayer that the tax laws are being enforced? Please give specific answers, citing particular steps you will take.

Original Answer. In order to understand and address the problem of noncompliance, we must first ensure that we have the right information about the problem and then make sure that we are devoting the right resources to the problem.

I am told that the IRS is undertaking its first, comprehensive study of taxpayer compliance in well over a decade. This National Research Program (NRP) will give us critical information on the areas of noncompliance today and will cover individual taxpayers of all income levels. Later phases of the NRP will address businesses. The IRS's current compliance data are out of date. The information that the NRP will provide us will be critical in understanding where the IRS must focus its efforts to improve compliance.

In the meantime, I have been informed that the IRS already is moving forward to streamline operations so that resources can be directed at compliance, including collection. I commend Commissioner Everson for taking steps necessary to make the IRS more efficient so that it can better serve the American taxpaying public. In addition, the Commissioner has focused on improving the implementation of the Business Systems Modernization (BSM) program. While we all are aware of the significant challenges experienced by that program, it appears that progress is being made. The Commissioner is committed to making sure that this progress continues and accelerates in the future. If confirmed, I will work with the Commissioner to ensure that these important efforts are successful.

As you are aware, the Administration has made a number of legislative proposals that will improve the IRS's ability to address outstanding tax liabilities. The proposal to use private collection agencies, or PCAs, to assist the IRS in limited but important ways will allow the IRS to reach many more taxpayers who are aware of their obligations but are not paying them even though they are capable of doing so. At the same time, the PCA proposal will allow the IRS to focus on more complex cases and issues. The Administration also has proposed several modifications to existing taxpayer protections to allow the IRS to deal more effectively with those taxpayers who are abusing these protections to delay or prevent collection. These proposals will maintain fully existing protections for those taxpayers seeking to resolve their liabilities. Finally, the Administration has proposed extending the due date for electronically filed returns by 15 days. This will further encourage the use of electronic filing, which is easier, more accurate, and more efficient for both taxpayers and the IRS.

Supplemental Answer. As Deputy Secretary of the Treasury, I will work with Commissioner Everson to address the problem of non-compliance. Based on information provided to me by the IRS, I believe that the IRS can and is taking a number of positive steps to assure American taxpayers that we are administering the tax laws fairly and effectively.

First, the IRS' efforts must be focused in order to be effective. In September 2002, the IRS, following months of planning, announced that it was realigning its audit resources to focus on key areas of non-compliance with the tax laws. The IRS' Small Business/SelfEmployed Division is handling this effort, with assistance from other parts of the IRS, including the IRS' Large and MidSized Business Division. The key areas of noncompliance targeted by this initiative include:

- Domestic and offshore abusive schemes and promoters.
- High-risk, high-income taxpayers.
- High-income non-filers.
- Unreported income.

The IRS is focusing its examination resources on these problems. Taxpayers falling within one of these high-priority areas of non-compliance must be identified quickly for expedited processing. I intend to work with the Treasury Department's Office of Tax Policy and the IRS to ensure that our efforts in these areas are being effective. As I noted in my original response, the National Research Program (NRP) will give us much better information on the areas of noncompliance today. The Treasury Department and the IRS will work together to evaluate the results of the NRP and determine how the information we obtain should be used in setting future IRS priorities.

Second, our current and future efforts to increase compliance will not be fully effective unless the IRS' information technology systems continue to improve. As I noted in my original response, improving the implementation of the Business Systems Modernization (BSM) program is a priority for Commissioner Everson, and I will work to ensure the success of the program.

Third, the IRS must make more efficient use of its personnel. In that regard, the IRS has changed a number of key processes, including:

- *Case Selection*—The IRS must both address the most serious areas of non-compliance while still addressing a wide range of cases and issues. Improvements to the case selection process will better enable the IRS to address its compliance priorities.

The IRS has refined its inventory delivery system which enables it to select higher priority cases for assignment to the collection field function and the Automated Collection System. Compliance risk, potential collectibility, and potential return on investment are related factors used in the filters for the IRS' inventory delivery system. This results in high priority cases being assigned for collection earlier in the delinquency cycle, which means the IRS gets to the case before the taxpayer has gone deeper and deeper into debt. The IRS continues to examine how case selection can be improved further.

- *Employment Taxes*—The failure of employers to make their federal tax deposits and pay over the withheld trust fund taxes is a serious compliance issue. The IRS is developing and implementing a strategy to improve collection of employment taxes. For instance, the IRS is assigning these cases for collection action early in the delinquency process, when there is a higher probability for collection and less chance for the account to grow with additional employment tax delinquencies.
- *Causes for Underpayment and Non-Filing*—The IRS is working to identify the components of its potentially collectible inventory, the main causes of non-compliance, and the contributing market segments. The information obtained is being used to address taxpayers through outreach and education, and to determine potential systems and policy changes. One significant component involves estimated tax compliance.
- *Taxpayer Education*—The IRS is aggressively reaching out to taxpayers before they, either intentionally or inadvertently, fail to file or fail to pay the full amount of tax due. Stopping noncompliance before it occurs is far preferable to having to find it afterwards. The IRS website, for example, has been a tremendous success and has been an important resource for taxpayers. It also is an important way for the IRS to communicate to taxpayers. Low-income taxpayer clinics (LITCs), volunteer income tax assistance (VITA) sites, and tax counseling for the elderly (TCE) sites also play an important role in taxpayer outreach and education. The IRS is examining how taxpayer outreach can be improved and made more effective.

It is important to note that the IRS also is reaching out to those taxpayers who may be missing out on important tax benefits to which they are entitled. For example, many non-filers would have received a refund had they filed a return. For the last three years, the IRS has issued news releases to alert the 1.6 to 1.7 million taxpayers each year who will lose their right to claim refunds if they do not make a claim within the 3-year limit.

I commend Commissioner Everson and the IRS for taking the steps necessary for a more efficient and effective IRS. I intend to work with the Commissioner to continue these important efforts.

Fourth, the IRS believes that it can make more effective use of existing enforcement tools when the circumstances warrant. These tools include:

- Jeopardy assessments.
- Liens and levies.
- Legal action.

These are important collection tools that must be used appropriately and effectively. At the same time, the IRS must respect taxpayer rights during all phases of the collection process.

Question 2. As of the end of fiscal year 2003, how many collection accounts were in deferred status and what was the total, mean, and median dollar value of these accounts?

Original Answer. Treasury staff and I are working with the IRS to obtain the information requested. I note, however, that information as of the end of fiscal year 2003 may require some time to compile.

Supplemental Answer. "Deferred status" refers to a case that has been removed from active inventory so that another case with higher priority or higher probability of collection can be assigned and worked by IRS employees. Deferred status cases are monitored systemically for changes in account status that might indicate that collectibility has increased. In addition, deferred status cases may have liens filed on them and usually are included in the Federal Payment Levy Program—a systemic levy/offset program administered by the Treasury Department's Financial Management Service (FMS) that levies any federal payments that may be made to the taxpayer.

Information on the accounts in deferred status as of the end of Fiscal Year 2003 is set out in the following table:

Type of Account	Modules	Dollars	Mean
Business	633,316	\$ 2,328,604,977.05	\$ 7,427.72
Individual	1,613,384	\$14,141,018,880.93	\$16,388.81
Total	2,246,700	\$16,469,623,857.98	\$14,000.64

As of the end of Fiscal Year 2003, 2,246,700 modules (*i.e.*, a specific amount of tax owed by a specific taxpayer for a specific tax period) were in deferred status. The total dollar value of these accounts was \$16,469,623,857.98, with a mean dollar value of \$14,000.64. The IRS' information systems currently cannot generate a median dollar value.

Many of the accounts in deferred status represent taxpayers who have filed a tax return showing an amount of tax due, but who have failed to pay the tax. Other accounts represent taxpayers who have been assessed additional tax by the IRS and have made three or more voluntary payments to satisfy that additional tax, but who have stopped making payments. These taxpayers are aware of their outstanding liabilities. The IRS, however, is unable to continuously pursue each taxpayer with an outstanding tax liability. Many taxpayers with outstanding tax liabilities, however, would make payment if contacted by telephone and, if necessary, offered the ability to make payment of the full amount in installments. The Administration's FY 2005 Budget proposes to permit the IRS to use private collection agencies (PCAs) to address accounts in deferred status.

Question 3. What types of taxpayers have accounts in deferred status? Please give a specific break out based on income.

Original Answer. Treasury staff and I are working with the IRS to obtain the information requested. I note, however, that information as of the end of fiscal year 2003 may require some time to compile.

Supplemental Answer. At the end of Fiscal Year 2003, there were 313,502 business taxpayers and 862,846 individual taxpayers in deferred status, for a total of 1,176,348. The IRS' information systems currently cannot readily associate income amounts with these taxpayers.

Question 4. What is the largest delinquent amount in deferred status?

Original Answer. Treasury staff and I are working with the IRS to obtain the information requested. I note, however, that information as of the end of fiscal year 2003 may require some time to compile.

Supplemental Answer. The largest delinquent amount in deferred status is over \$50 million. As the Deputy Secretary, I ordinarily do not have access to confidential return information and therefore am not providing additional information on this

amount. If further detail is desired, the IRS will respond to a request from the Committee. See I.R.C. § 6103(f).

Question 5. How have the amounts referred to in the previous 3 questions changed in recent years? Are deferrals increasing or decreasing?

Original Answer. Treasury staff and I are working with the IRS to obtain the information requested. I note, however, that information as of the end of fiscal year 2003 may require some time to compile.

Supplemental Answer. As set out in the tables below, accounts in deferred status (by module) have decreased slightly, but the dollar amounts for these accounts have increased, from Fiscal Year 2002 to Fiscal Year 2003.

Type of Account – Fiscal Year 2003	Modules	Dollars
Business	633,316	\$ 2,328,604,977.05
Individual	1,613,384	\$14,141,018,880.93
Total	2,246,700	\$16,469,623,857.98

Type of Account – Fiscal Year 2002	Modules	Dollars
Business	705,061	\$ 2,630,905,384.82
Individual	1,836,412	\$13,219,824,040.96
Total	2,541,473	\$15,850,729,425.78

Question 6. What alternatives have been considered for reducing this collections workload gap and the dollar value of outstanding delinquent tax debt? Please give specific examples if other alternatives have been considered or implemented.

Original Answer. Some of the steps that the Treasury Department and the IRS already have taken are outlined in my response to Question 1. I will provide a fuller description of the alternatives that have been considered in a subsequent response.

Supplemental Answer. See Supplemental Response to Question 1.

Question 7. According to the General Accounting Office, IRS deferred collection action on about one out of three new collection cases in fiscal year 2002. This raises questions about how IRS manages the number of new enforcement actions (such as examinations and document matching cases) which ultimately determine the collections workload. Since IRS determines the level of new enforcement actions initiated each year, what analysis has IRS done to determine the best balance between allocating resources to starting new exams as opposed to allocating more resources to collecting outstanding delinquent tax debt?

Original Answer. Treasury staff and I are working with the IRS to provide the information requested.

Supplemental Answer. The IRS has reviewed data from the Taxpayer Compliance Measurement Program (TCMP) to evaluate the best balance in allocating resources between new examinations and the collection of outstanding tax liabilities. The last TCMP study of individual tax returns was for tax year 1988, more than 15 years ago. Data for corporations and other entities are even older and less reliable. Accordingly, the following analysis is preliminary only. The ongoing National Research Program (NRP) will provide much more current information on taxpayer compliance that will allow the IRS to better analyze the reasons for noncompliance and better prioritize the allocation of its resources to address noncompliance.

Based on the IRS' evaluation of TCMP data, the IRS believes that most failures to pay the correct amount of tax due are the result of underreporting (*i.e.*, not reporting the correct amount owed, and therefore underpaying) rather than the result of underpayment (*i.e.*, not paying the amount reported) and non-filing. Underreporting can be addressed by examinations, and a decision by the IRS to conduct more examinations is based primarily on a need to promote voluntary compliance with tax laws and, to a lesser degree, on the ultimate effect on collections. Given the number of examinations that the IRS can conduct, however, examinations have a small effect on the collections workload.

Only 450,000 (or about 8%) of the 5.5 million of new collection accounts arising in Fiscal Year 2003 were generated from examinations.

The IRS' examination and collection work plans take into account audit coverage, compliance risk, and specific strategic priorities. While underreporting accounts for the greater percentage of uncollected taxes, the IRS is working to improve the collection of delinquent debt and the securing of overdue tax returns.

Question 8. Has IRS studied whether a different balance between the initiation of new enforcement actions and its capacity to collect delinquencies would lead to higher levels of tax revenue or improved compliance? If so, please provide the Committee with these studies.

Original Answer. Treasury staff and I are working with the IRS to provide the information requested.

Supplemental Answer. The IRS is conducting two studies relating to steps that might be taken to improve taxpayer compliance. The first study will focus on the impact of collection actions on employment tax/trust fund compliance. The second study will focus on federal tax liens and case selection for cases designated as currently not collectible. Both are scheduled to be completed in early 2005. The IRS also is considering whether other studies, tools or models may help the IRS in evaluating this issue.

Question 9. Tax laws provide a 10-year statute of limitations on the time authorized to collect tax debts. Considering that IRS's deferral policy is almost 5 years old and some of the first debts deferred are likely to have been a year or two old in 1999, what plans does IRS have to assure that all deferred tax debt receives adequate collection action before the statute of limitations expires?

Original Answer. Treasury staff and I are working with the IRS to provide the information requested.

Supplemental Answer. The IRS makes business decisions, considering its available resources, to pursue or defer action on accounts. Compliance risk, potential collectibility, and potential return on investment are related criteria used to prioritize collection activity.

To ensure that all deferred accounts receive adequate collection action, the IRS has implemented several systemic actions in collection systems. These include:

- Automatic refund offset for as long as the statute of limitations remains open.
- Inclusion of the debt in the Federal Payment Levy Program, which ensures that any federal payments due to the taxpayer are subject to levy.
- Systemic reactivation of an account upon the occurrence of new activity, such as a new liability, a source of income or tax filing delinquency.
- Annual notices to remind taxpayers of these tax obligations and to encourage payment.

As discussed earlier, the Treasury Department believes that many accounts in deferred status could be addressed effectively and efficiently by private collection agencies (PCAs). The Administration's FY 2005 Budget proposes the limited and targeted use of PCAs by the IRS to address these accounts.

RESPONSES TO QUESTIONS FROM SENATOR BINGAMAN

Introduction

I share your concern about recent reports of TIGTA investigations of undocumented workers and recognize the affect that these reports may have on tax compliance. The Treasury Department, which includes the IRS and TIGTA, is the agency charged with the administration of this country's tax laws. The Administration has a very strong interest in having all taxpayers comply with their U.S. tax obligations, regardless of whether an individual is in the U.S. legally. If confirmed, I would look forward to working with the Committee to ensure that our responsibilities as tax administrators, and TIGTA's responsibilities as an inspector general, are focused on improving compliance and addressing threats to the integrity of our tax system.

Before I address your specific questions, I want to emphasize that I have been assured that neither the IRS nor TIGTA has a program or project to identify and investigate undocumented workers for possible immigration law violations. Some of the recent press reports suggest that this may be the case, and, as I understand it, that simply is not true.

Question 1. Please provide my office with the following information:

1. What is Treasury's position regarding the legality of taxpayer identification numbers being shared with immigration enforcement officials? Are such disclosures prohibited under IRC Section 6103? Please provide me with the statutory and regulatory basis for your response.

Answer. Our tax system fundamentally is based on voluntary compliance, and voluntary compliance requires that taxpayers be confident that the IRS treats their taxpayer information as confidential and uses that information only for tax administration purposes. The laws governing the disclosure of taxpayer information, particularly section 6103 of the Internal Revenue Code, are designed to ensure that any disclosure of taxpayer information for non-tax administration purposes is carefully limited and serves a compelling purpose. The following is a brief description of these

rules that has been provided to me, and I would be happy to provide further details if you desire.

Section 6103(a) provides that taxpayer returns and return information shall be confidential except as expressly authorized. Officers and employees of the Treasury Department, including IRS and TIGTA employees, may access returns and return information if required by their official duties. I.R.C. § 6103(h)(1). Protected return information includes taxpayer identification numbers, or TINs. *See* I.R.C. §§ 6103(b)(2) and (b)(6). TINs include both Social Security numbers (SSNs) issued to eligible individuals as well as individual taxpayer identification numbers (ITINs) issued by the IRS to taxpayers not eligible for SSNs. Treas. Reg. § 301.6109-1.

Disclosure of information protected by section 6103(a) is carefully controlled by statute. IRS agents and TIGTA agents, for instance, are authorized to disclose return information as needed in the course of their official tax administration investigations. I.R.C. § 6103(k)(6). For example, an IRS agent may disclose return information, such as the purchase price of an asset reported on a return, to verify whether it is correct. *See* Treas. Reg. § 301.6103(k)(6)-1T.

Disclosures by IRS and TIGTA agents to other law enforcement agencies, such as the Department of Justice, are subject to additional, strict requirements. Section 6103(h) governs disclosures for tax administration purposes, and section 6103(i) governs disclosures for non-tax administration purposes. Any disclosures pursuant to these sections must comply with the specific requirements mandated by Congress. Disclosures that do not comply with the requirements of section 6103 may result in civil and criminal penalties. I.R.C. §§ 7213, 7213A, and 7431.

Question 2. Please provide my office with the following information:

What steps, if any, is Treasury currently taking to address these concerns?

Answer. I have been informed that TIGTA currently is reviewing the circumstances of the reported investigations to determine whether all legal requirements, including restrictions on the disclosure of tax return information, and all TIGTA policies and procedures were followed. I have been assured that TIGTA is taking the concerns that you and others have expressed very seriously, and that the Treasury Department is committed to working with TIGTA to ensure that TIGTA's policies and activities focus on addressing threats to the integrity of our tax system.

United States Senate
FINANCE COMMITTEE
WASHINGTON, DC

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED
OF DEPARTMENT/AGENCY NOMINEES

SAMUEL W. BODMAN

A. BIOGRAPHICAL INFORMATION

1. **Name:**
Samuel W. Bodman
2. **Position to which nominated:**
Deputy Secretary of Treasury
3. **Date of nomination:**
December 9, 2003
4. **Address:**
Home Address: 3025 Whitehaven Street, NW
Washington, DC 20008

Office Address: U.S. Department of Commerce
Room 5838
14th Street and Constitution Avenue, NW
Washington, DC 20230
5. **Date and place of birth:**
November 26, 1938
Chicago, Illinois
6. **Marital status:**
Married to Mary Diane Petrella Bodman
7. **Names and ages of children:**
Children: Elizabeth Bodman Mott, 41
Andrew Morgan Bodman, 38
Sarah Bodman Greenhill, 35

Stepchildren: Perry Oscar Barber III, 27
Caroline Killough Barber, 24

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED
OF DEPARTMENT/AGENCY NOMINEES**

SAMUEL W. BODMAN

A. BIOGRAPHICAL INFORMATION (continued)

8. Education:

Secondary: Glenbard Township High School
Glen Ellyn, Illinois
1952-1956
High School Diploma, June, 1956

College: Cornell University
Ithaca, New York
1956-1961
B. Ch. E., June, 1961

Graduate School: Massachusetts Institute of Technology
Cambridge, Massachusetts
1961-1965
Sc.D., June 1965

9. Employment record:

- a. Massachusetts Institute of Technology
Professor of Chemical Engineering
Cambridge, MA
1964-1970
- b. American Research and Development Corporation
Venture capital investing
Technical Director
Boston, MA
1964-1970
- c. Fidelity Investments
Investment management
President and Chief Operating Officer
Boston, MA
1970-1986
- c. Cabot Corporation
Diversified, global chemical manufacturer
Chairman and Chief Executive Officer
Boston, MA
1987-2001

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED
OF DEPARTMENT/AGENCY NOMINEES**

SAMUEL W. BODMAN

A. BIOGRAPHICAL INFORMATION (continued)

9. Employment Record (continued)

- e. U.S. Department of Commerce
Deputy Secretary
Washington, DC
2001-Present

10. Government experience:

In 1993 I served on an advisory committee to Governor William Weld on developing strategies for new business development in Massachusetts.

11. Business relationships:

Directorships:

- Cabot Corporation
- John Hancock Financial Services
- Thermo Electron Corporation
- Cabot Microelectronics Corporation
- Cabot Oil and Gas Corporation
- Security Capital Group, Inc.
- Westvaco, Inc.
- Apco Oil and Gas Company
- Steam Engine Systems Corporation
- Marathon Manufacturing Company
- Haemonetics Corporation
- Rixson-Firemark Corporation
- Environmental Research & Technology Corporation
- Mardrill, Inc.
- Guardian Oil Company
- Respiratory Care, Inc.
- Continental Cablevision, Inc.
- Skok Systems, Inc.
- Well Tech, Inc.
- Fidelity Group of Mutual Funds
- FMR Corporation
- Industrial Research, Inc.
- Aspen Technology, Inc.
- MCI New England, Inc.
- France Drilling Company
- Amata Gas, Inc.
- Index Technology, Inc.
- First National Bank of Boston, Inc.

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED
OF DEPARTMENT/AGENCY NOMINEES**

SAMUEL W. BODMAN

A. BIOGRAPHICAL INFORMATION (continued)

11. Business relationships:

Trusteeships of Non-Profit Organizations:

Massachusetts Institute of Technology
Isabella Stewart Gardner Museum
New England Aquarium
French Library and Cultural Center
MITRE Corporation
Babson College
Northeastern University
Massachusetts General Hospital Physicians Organization

Employment:

Massachusetts Institute of Technology
Professor of Chemical Engineering
1964-1970

American Research and Development Corporation
Technical Director
1964-1970

Fidelity Investments
President and Chief Operating Officer
1970-1986

Cabot Corporation
Chairman and Chief Executive Officer
1987-2001

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED
OF DEPARTMENT/AGENCY NOMINEES**

SAMUEL W. BODMAN

A. BIOGRAPHICAL INFORMATION (continued)

12. Memberships:

Scholarly Memberships: American Academy of Arts and Sciences

Social Memberships:

The Country Club, Brookline, Massachusetts

Somerset Club, Boston, Massachusetts

Harvard Club, Boston, Massachusetts

West Chop Club, Martha's Vineyard, Massachusetts

Coronado Club, Houston, Texas

Houston Country Club, Houston, Texas

Lost Tree Club, North Palm Beach, Florida

Cosmos Club, Washington, DC

Chevy Chase Club, Chevy Chase, Maryland

13. Political affiliations and activities:

a. List all public offices for which you have been a candidate.

None

b. List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED
OF DEPARTMENT/AGENCY NOMINEES**

SAMUEL W. BODMAN

A. BIOGRAPHICAL INFORMATION (continued)

13. Political affiliations and activities: (continued)

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.

The Committee for Tim Wirth	10/16/91	\$ 500
The Weld Committee	09/16/93	\$ 1,000
The Menino Committee	10/12/93	\$ 500
The Harshbarger Committee	05/18/94	\$ 500
George W. Bush for Governor	06/07/94	\$ 500
The Senator Chafee Committee	10/04/94	\$ 500
No on 6&7 Committee	10/14/94	\$ 2,500
Scott Harshbarger Committee	03/25/96	\$ 500
Weld for Senate	09/09/96	\$ 1,000
Harshbarger Committee	01/20/98	\$ 500
Bush for President, Inc.	03/31/99	\$ 2,000
RNC Presidential Trust	06/15/00	\$ 20,000
Bush-Cheney Fund	11/14/00	\$ 5,000
DeMint for Congress	05/06/02	\$ 500

14. Honors and awards:

McMullen Scholar -- Cornell University
 Alfred P. Sloan Scholar -- Cornell University
 National Science Foundation Fellowship -- Massachusetts Institute of Technology
 Eastman Kodak Award -- Massachusetts Institute of Technology
 Tau Beta Pi -- Cornell University

15. Published writings:

The Industrial Practice of Chemical Process Design, textbook published by MIT Press, 1968.

16. Speeches:

None.

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED
OF DEPARTMENT/AGENCY NOMINEES**

SAMUEL W. BODMAN

A. BIOGRAPHICAL INFORMATION (continued)

17. Qualifications:

In my career I served for a decade as President and Chief Operating Officer of Fidelity Investments and a Director of the Fidelity Group of Mutual Funds. Subsequently, I served as Chairman and Chief Executive Officer of Cabot Corporation, an energy, chemical, and materials manufacturer with operations in 25 countries. For the past two and one-half years, I have served as Deputy Secretary of the United States Department of Commerce.

At Fidelity, I developed my knowledge of financial markets, my experience with financial service operations, and my sensitivity to the fiduciary responsibilities assumed by all financial professionals. At Cabot, I learned about managing a large, dispersed organization and about the challenge of managing in very diverse ethnic, religious, and cultural environments. At Commerce, I learned about managing the operations of a very eclectic Department and about engaging with Congress, participating in the interdepartmental process, and working with the Executive Office of the President.

I believe that all these experiences have prepared me very well to serve as Deputy Secretary of the Department of the Treasury.

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED
OF DEPARTMENT/AGENCY NOMINEES**

SAMUEL W. BODMAN

B. FUTURE EMPLOYMENT RELATIONSHIPS

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

I severed all such relationships pursuant to my appointment as Deputy Secretary of Commerce. All agreements or arrangements for ongoing participation in employee benefit plans are described herein.

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, explain.**

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.

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED
OF DEPARTMENT/AGENCY NOMINEES**

SAMUEL W. BODMAN

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.**

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics. Should any potential conflict of interest arise in the future, I will seek guidance from a Treasury ethics official.

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.**

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics. Should any potential conflict of interest arise in the future, I will seek guidance from a Treasury ethics official.

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.**

I have never engaged in any effort to influence any legislation or affect any public policy except those undertaken because I serve as Deputy Secretary of Commerce.

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED
OF DEPARTMENT/AGENCY NOMINEES**

SAMUEL W. BODMAN

C. POTENTIAL CONFLICTS OF INTEREST (continued)

4. **Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items.**

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics. Should any potential conflict of interest arise in the future, I will seek guidance from a Treasury ethics official. Copies of my blind trust agreement are included in the answer to Question F.4.

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.

N/A

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED
OF DEPARTMENT/AGENCY NOMINEES**

SAMUEL W. BODMAN

D. LEGAL 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 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.**

I, personally, have not been the subject of any administrative agency proceeding or civil litigation at either Fidelity Investments or Cabot Corporation, my two principal employers for the past 30 years. However, both companies have, of course, been involved with a wide variety of litigation. I have asked the General Counsels of each company to summarize the most significant litigation issues confronting them at the time of my departure from the private sector. Their responses are appended to this report.

In 1999, Elizabeth Eggert, a former member of Cabot's Law Department, sued Cabot for employment discrimination. I was deposed in this litigation. The suit was settled after I left the company.

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.

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED
OF DEPARTMENT/AGENCY NOMINEES**

SAMUEL W. BODMAN

D. LEGAL MATTERS (continued)

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

I know of no relevant additional information.

**BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED
OF DEPARTMENT/AGENCY NOMINEES**

SAMUEL W. BODMAN

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.

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

Yes.

COMMUNICATIONS

**BUILDING A
STRONGER WORKPLACE**
at
*Departmental Offices,
United States
Department of the Treasury*

**Executive Presentation
September 20, 2002**

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U.S. Treasury D.O. Executive Presentation

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The Mission of the Department of the Treasury

- *Promote Prosperous and Stable American and World Economies*
- *Manage the Government's Finances*
- *Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe and Drug-Free America*
- *Continue to Build a Strong Institution*

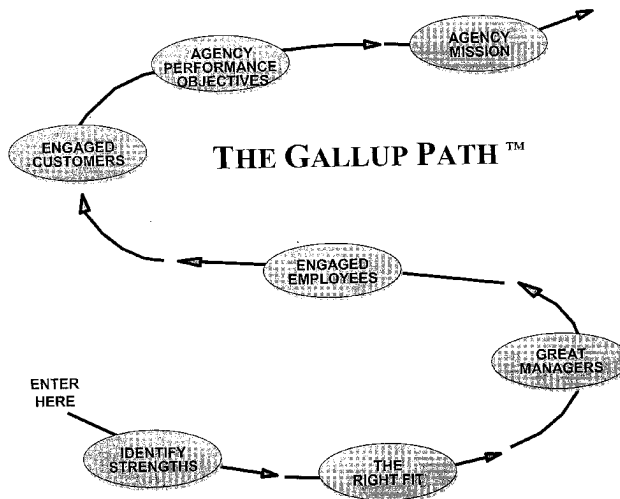
Agenda

- Introduction
- U.S. Treasury D.O. Q¹² Performance
 - Overall Employee Engagement
 - Workgroup Performance at U.S. Treasury D.O.
- Summary and Recommendations

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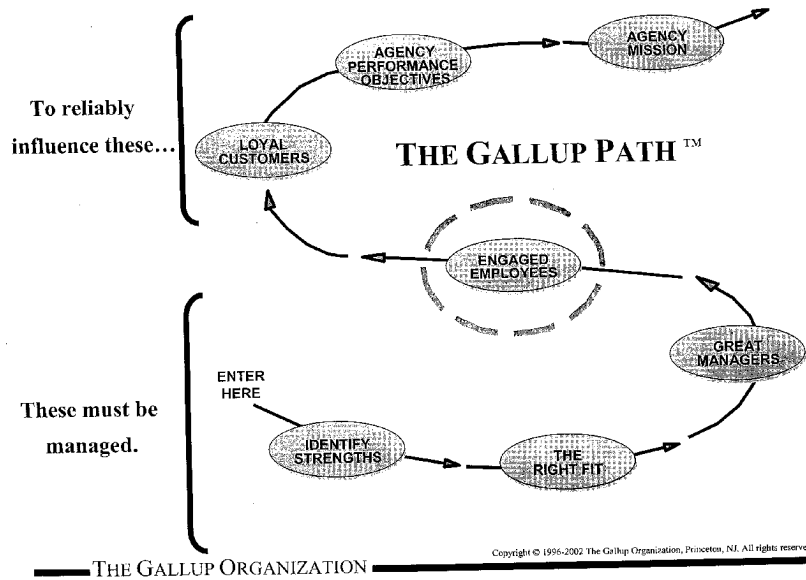
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U.S. Treasury D.O. Executive Presentation 4



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Reality Check

1993 – Gallup interviewed human resources and organizational development personnel in Fortune 500 companies to find out how they create positive culture change:

- 80% do employee surveys
- Average length – 150 question items
- Frequency – every 1-2 years
- 60% reported being “worse off” after the survey!

Finding the Right Questions

- Thousands of different questions
- More than 1 million employees
- Identify the factors common to productive workplaces
- Identify the best questions to measure these factors

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U.S. Treasury D.O. Executive Presentation 8

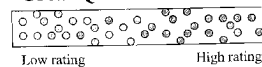
The Sorting Effect

Poor Question



“I feel I am paid the right amount.”

Great Question



“I have the opportunity to do what I do best every day.”

- More productive workgroups
- Less productive workgroups

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U.S. Treasury D.O. Executive Presentation 9



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The 12 Questions That Matter

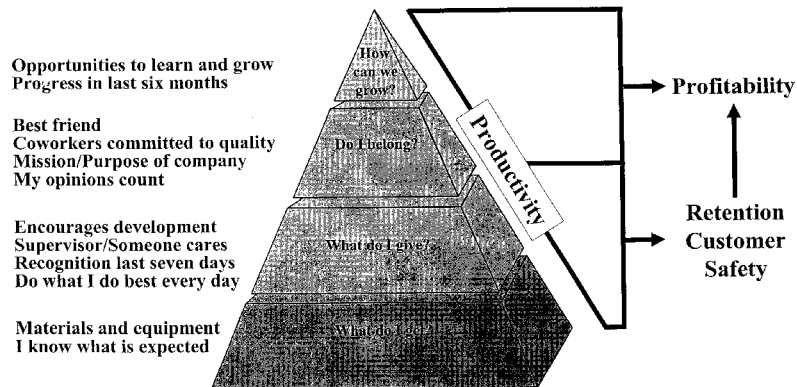
- I know what is expected of me at work.
- I have the materials and equipment I need to do my work right.
- At work, I have the opportunity to do what I do best every day.
- In the last seven days, I have received recognition or praise for doing good work.
- My supervisor, or someone at work, seems to care about me as a person.
- There is someone at work who encourages my development.
- At work, my opinions seem to count.
- The mission or purpose of my company makes me feel my job is important.
- My associates or fellow employees are committed to doing quality work.
- I have a best friend at work.
- In the last six months, someone at work has talked to me about my progress.
- This last year, I have had opportunities at work to learn and grow.

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U.S. Treasury D.O. Executive Presentation 11

Meta-Analysis 2002 Business Outcomes Model



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U.S. Treasury D.O. Executive Presentation 12

What is contained in Gallup's Database?

- Gallup's Overall 2002 database includes:
 - 2.24 million employees
 - 198,476 workgroups
 - 221 clients
 - 8 major industries (Public Administration, Finance, Information, Manufacturing, Retail, Services, Transportation, and Utilities)
 - 7 major regions of the world
 - 28 different languages in 81 countries

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U.S. Treasury D.O. Executive Presentation 13

Employee Engagement at United States Department of the Treasury Departmental Offices

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U.S. Treasury D.O. Executive Presentation 14

Objectives

- **Understand the dimensions of employee engagement at U.S. Treasury D.O. that consistently drive business outcomes.**
 - **Benchmark workplace quality against that of other organizations.**
 - **Learn about workplace strengths and review weaknesses.**
 - **Analyze what drives U.S. Treasury D.O.'s workplace culture.**
- **Build a stronger workplace.**
 - **Review process of manager education, team feedback and action planning, and workplace improvement.**
 - **Determine corporate interventions and executive support.**
 - **Plan long-term performance strategy.**

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U.S. Treasury D.O. Executive Presentation 15

Methodology

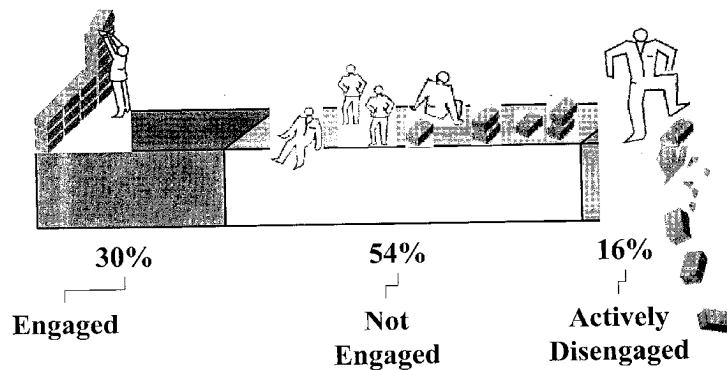
- Survey administration occurred via Web and IVR from July 22 – August 12, 2002.
- Survey items included Gallup's Q¹² items an overall satisfaction item, and a workplace safety attribute.
- 1,210 employees participated from the U.S. Treasury D.O.'s total population of 1,681, yielding a response rate of 72%. Gallup's average rate of response is 77%.
- Just over 99% of the surveys were completed using the Web methodology.

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U.S. Treasury D.O. Executive Presentation 16

Engagement Scores

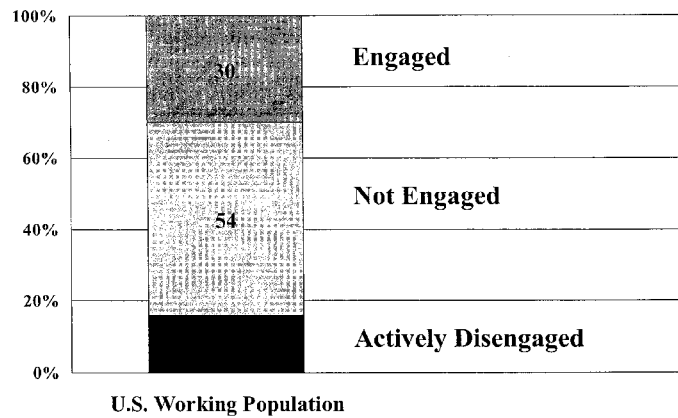


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U.S. Treasury D.O. Executive Presentation 17

In a series of national polls, Gallup has estimated the prevalence of these three types of employees*:



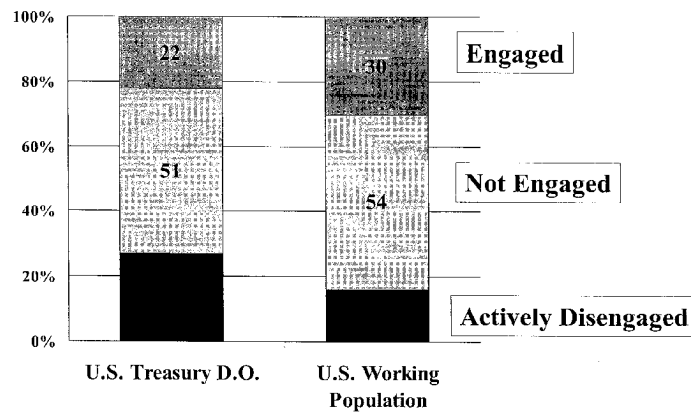
*Source: Gallup Poll data of U.S. working population 18 years and older, accumulated February – October 2001

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U.S. Treasury D.O. Executive Presentation 18

Gallup Q12® Engagement Index at U.S. Treasury D.O.

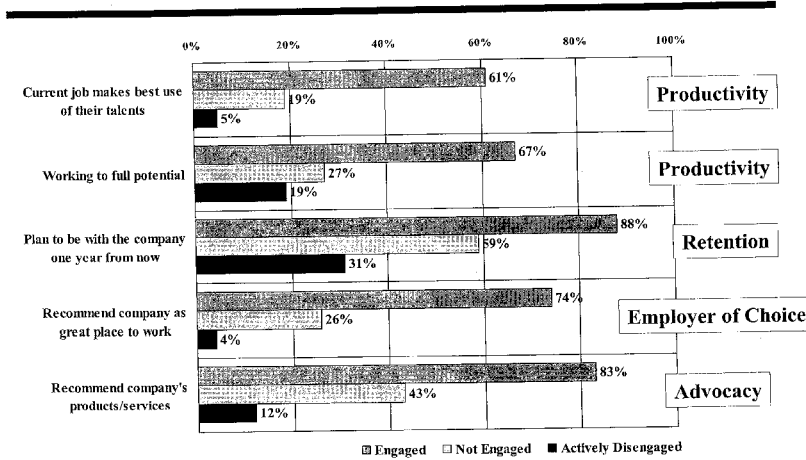


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U.S. Treasury D.O. Executive Presentation 19

Gallup Q12® Engagement Index Business Impact*



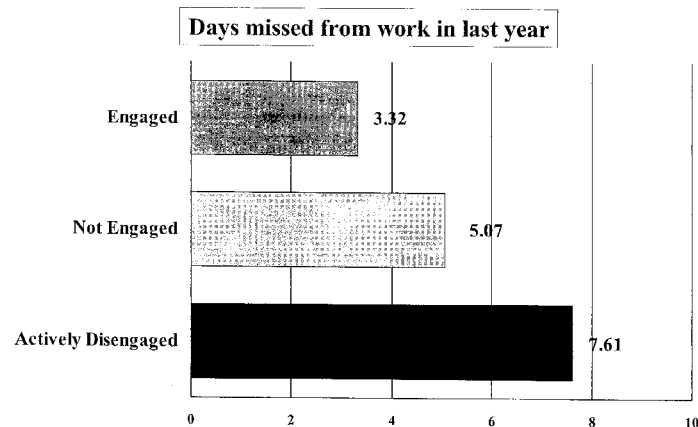
*Source: Gallup Poll data of U.S. working population 18 years and older, accumulated February – October 2001

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U.S. Treasury D.O. Executive Presentation 20

Gallup Q12® Engagement Index Business Impact*



*Source: Gallup Poll data of U.S. working population 18 years and older, conducted February 2002

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U.S. Treasury D.O. Executive Presentation 21

Gallup Q¹²® Engagement Index Business Impact

	Number of Employees	Additional Days Lost	Total
• Total U.S. Treasury D.O.	1,681		
• Not Engaged	857	x 1.75	= 1,500
• Actively Disengaged	454	x 4.29	= 1,948
			<u>3,448</u>

x Average cost per lost workday** \$ 320.00
 = Cost of lost workdays due to disengagement \$1,103,360

* Difference in days lost between Engaged and Not Engaged or Actively Disengaged employees

** Based on an average salary of \$80,000 for 2,000 work hours per year

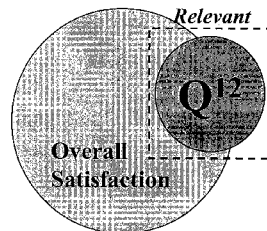
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U.S. Treasury D.O. Executive Presentation 22

Overall Satisfaction With U.S. Treasury D.O.

	% Extremely Satisfied
• U.S. Treasury D.O. Overall Satisfaction	= 10%
• U.S. Treasury D.O. 75 th Percentile	= 16%
• Gallup 75 th Percentile	= 33%



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U.S. Treasury D.O. Executive Presentation 23

U.S. Treasury D.O. Q¹²® Percentile Ranking

	Percentile
My associates or fellow employees are committed to doing quality work.	70 th
The mission or purpose of my organization makes me feel my job is important.	57 th
At work, my opinions seem to count.	44 th
My supervisor, or someone at work, seems to care about me as a person.	40 th
In the last seven days, I have received recognition or praise for doing good work.	37 th
This last year, I have had opportunities at work to learn and grow.	33 rd
In the last six months, someone at work has talked to me about my progress.	33 rd
I have a best friend at work.	29 th
I have the materials and equipment I need to do my work right.	29 th
There is someone at work who encourages my development.	28 th
At work, I have the opportunity to do what I do best every day.	28 th
I know what is expected of me at work.	22 nd

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U.S. Treasury D.O. Executive Presentation 24

U.S. Treasury D.O. Q¹²® Percentile Ranking (Gallup's Public Administration Database)

	Percentile
My associates or fellow employees are committed to doing quality work.	72 nd
The mission or purpose of my organization makes me feel my job is important.	67 th
At work, my opinions seem to count.	56 th
In the last seven days, I have received recognition or praise for doing good work.	50 th
My supervisor, or someone at work, seems to care about me as a person.	44 th
This last year, I have had opportunities at work to learn and grow.	44 th
There is someone at work who encourages my development.	40 th
In the last six months, someone at work has talked to me about my progress.	38 th
I have the materials and equipment I need to do my work right.	38 th
At work, I have the opportunity to do what I do best every day.	38 th
I know what is expected of me at work.	34 th
I have a best friend at work.	31 st

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U.S. Treasury D.O. Executive Presentation 25

U.S. Treasury D.O. Q12® Workplace Quality Scorecard

GrandMean:	33 rd Percentile		
	U.S. Treasury D.O. Overall	Gallup 50 th Percentile	Gallup 75 th Percentile
	3.43	3.62	3.91
	(n=1,203)		
	%5s	%5s	%5s
Opportunities to learn and grow Progress in last six months	29 25	31 29	45 44
Best friend Coworkers committed to quality Mission/Purpose of company My opinions count	20 39 33 21	25 25 21 18	38 40 38 32
Encourages development Supervisor/Someone at work cares Recognition last seven days Do what I do best every day	22 38 19 18	23 34 20 25	39 50 36 40
Materials and equipment I know what is expected of me at work	23 35	25 45	40 63

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U.S. Treasury D.O. Executive Presentation 26

U.S. Treasury D.O. Q12® Workplace Quality Scorecard

GrandMean:	45 th Percentile		
	U.S. Treasury D.O. Overall	Gallup 50 th Percentile Pub. Adm.	Gallup 75 th Percentile Pub. Adm.
	3.43	3.49	3.78
	(n=1,203)		
	%5s	%5s	%5s
Opportunities to learn and grow Progress in last six months	29 25	25 29	40 43
Best friend Coworkers committed to quality Mission/Purpose of company My opinions count	20 39 33 21	27 25 20 15	40 40 33 29
Encourages development Supervisor/Someone at work cares Recognition last seven days Do what I do best every day	22 38 19 18	20 33 18 18	33 50 33 33
Materials and equipment I know what is expected of me at work	23 35	20 40	37 52

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Gallup's Public Administration Database contains 127,915 respondents in 15,993 workgroups

U.S. Treasury D.O. Executive Presentation 27

Distribution of U.S. Treasury D.O. Q¹²® Scores

	Percentage of Responses on the Agreement Scale					Mean
	%1s	%2s	%3s	%4s	%5s	
Overall Satisfaction:	9	17	32	34	10	3.19
Opportunities to learn and grow	13	12	20	26	29	3.48
Progress in last six months	19	15	16	24	25	3.21
Best friend	20	20	20	19	20	3.01
Coworkers committed to quality	3	7	17	35	39	4.01
Mission/Purpose of company	7	10	18	31	33	3.73
My opinions count	14	13	22	31	21	3.33
Encourages development	18	16	18	25	22	3.16
Supervisor/Someone at work cares	11	11	14	27	38	3.69
Recognition last seven days	25	16	18	22	19	2.94
Do what I do best every day	10	18	24	30	18	3.29
Materials and equipment	7	16	21	31	23	3.47
I know what is expected of me at work	4	9	18	35	35	3.89

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U.S. Treasury D.O. Executive Presentation 28

U.S. Treasury D.O. Top Quartile

	U.S. Treasury D.O. Overall	U.S. Treasury D.O. 75 th Percentile	Gallup 75 th Percentile
GrandMean:	3.43 (n=1,203)	3.76	3.91
	%5s	%5s	%5s
Opportunities to learn and grow	29	45	45
Progress in last six months	25	36	44
Best friend	20	33	38
Coworkers committed to quality	39	51	40
Mission/Purpose of company	33	50	38
My opinions count	21	33	32
Encourages development	22	33	39
Supervisor/Someone at work cares	38	56	50
Recognition last seven days	19	25	36
Do what I do best every day	18	32	40
Materials and equipment	23	33	40
I know what is expected of me at work	35	50	63

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U.S. Treasury D.O. Executive Presentation 29

U.S. Treasury D.O. Top Quartile

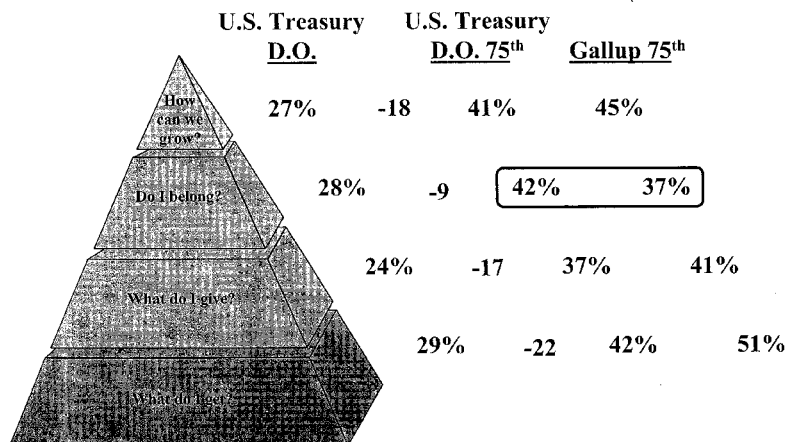
	U.S. Treasury D.O. Overall	U.S. Treasury D.O. 75 th Percentile	Gallup 75 th Percentile
GrandMean:	3.43	3.76	3.91
	(n=1,203)		
	%5s	%5s	%5s
Opportunities to learn and grow Progress in last six months	29 25	45 36	45 44
Best friend Coworkers committed to quality Mission/Purpose of company My opinions count	20 39 33 21	33 51 50 33	38 40 38 32
Encourages development Supervisor/Someone at work cares Recognition last seven days Do what I do best every day	22 38 19 18	33 56 25 32	39 50 36 40
Materials and equipment I know what is expected of me at work	23 35	33 50	40 63

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U.S. Treasury D.O. Executive Presentation 30

U.S. Treasury D.O. 2002 Engagement Scores

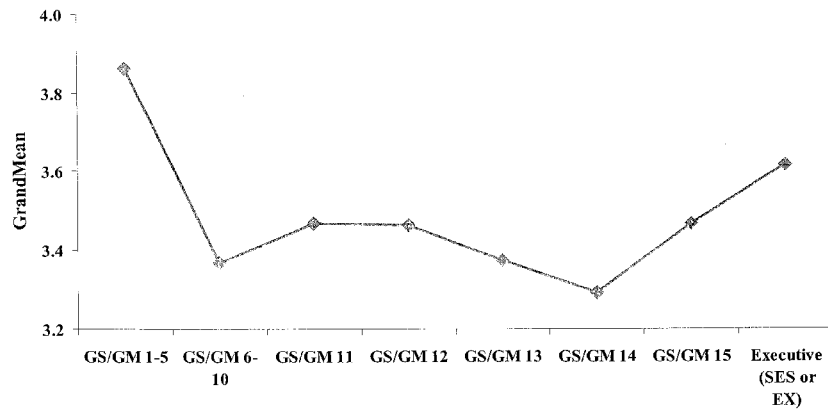


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U.S. Treasury D.O. Executive Presentation 31

Engagement at U.S. Treasury D.O. by Pay-grade

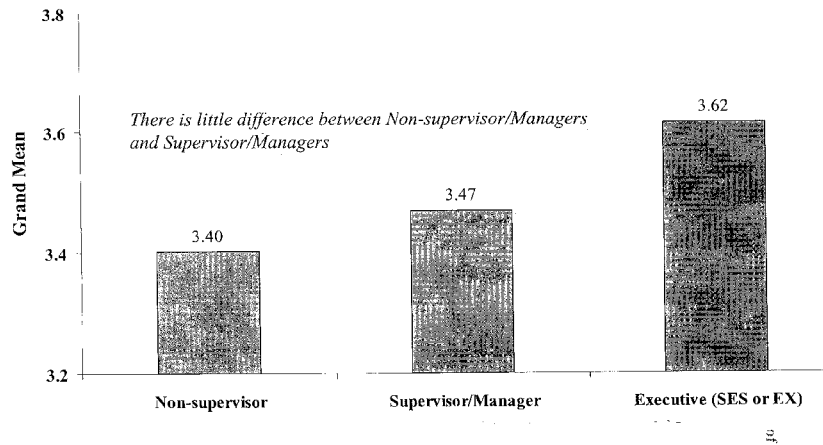


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U.S. Treasury D.O. Executive Presentation 32

Engagement at U.S. Treasury D.O. by Job Category

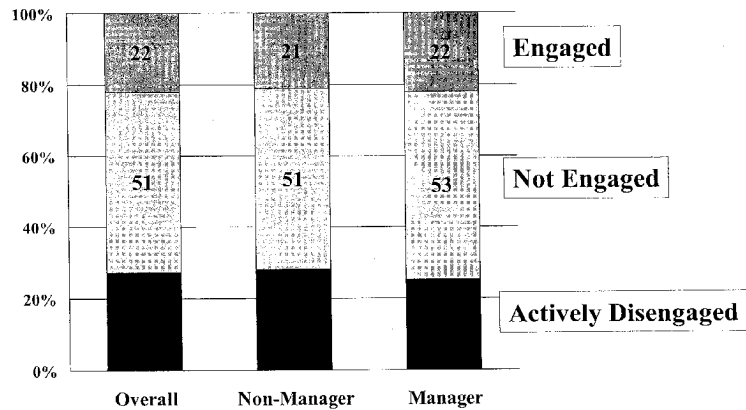


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U.S. Treasury D.O. Executive Presentation 33

Gallup Q12® Engagement Index at U.S. Treasury D.O.

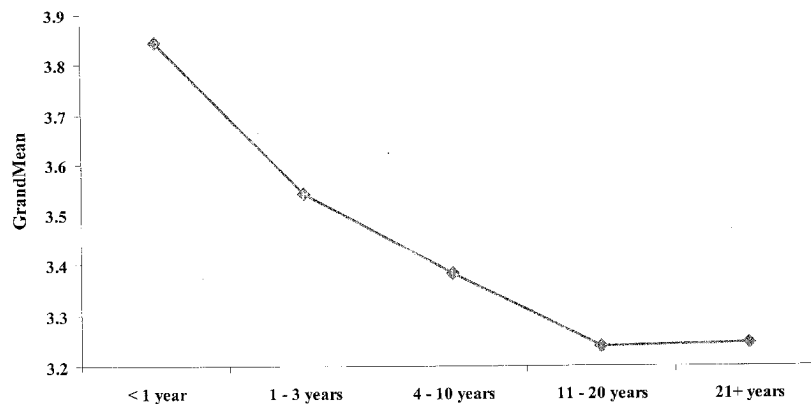


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U.S. Treasury D.O. Executive Presentation 34

Engagement at U.S. Treasury D.O. by Tenure

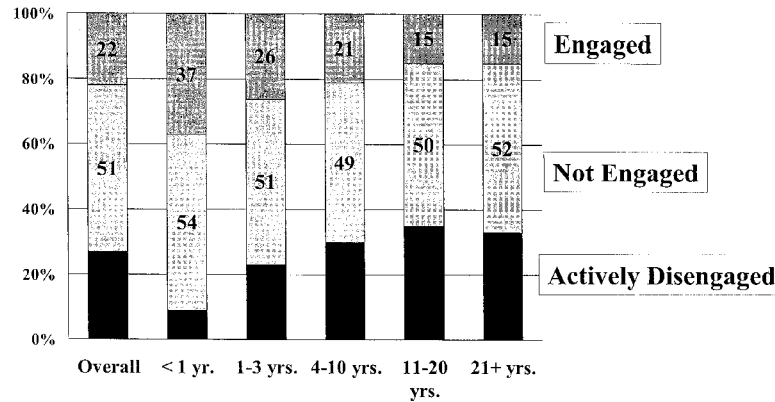


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U.S. Treasury D.O. Executive Presentation 35

Gallup Q12® Engagement Index at U.S. Treasury D.O. by Tenure

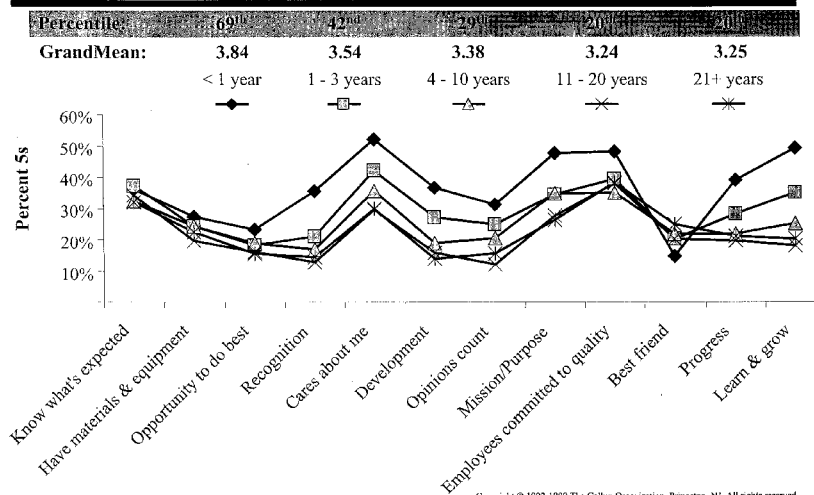


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U.S. Treasury D.O. Executive Presentation 36

Engagement at U.S. Treasury D.O. by Tenure

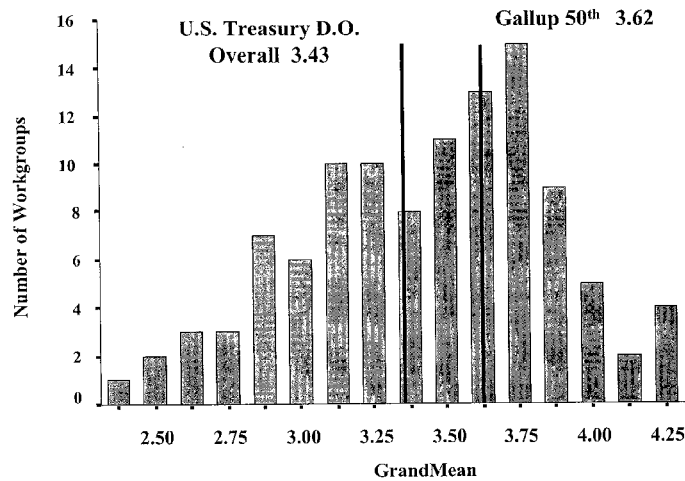


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U.S. Treasury D.O. Executive Presentation 37

Range in GrandMean Performance at U.S. Treasury D.O.

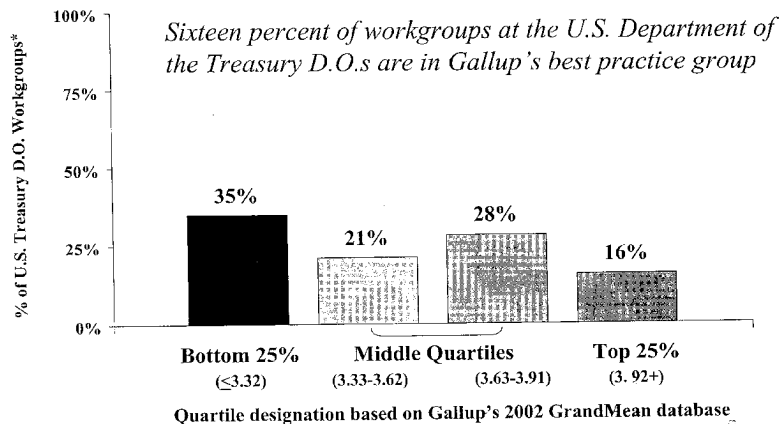


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U.S. Treasury D.O. Executive Presentation 38

Quartile Performance on Q¹²® GrandMean U.S. Treasury D.O. 2002



* 109 workgroups are represented here.

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U.S. Treasury D.O. Executive Presentation 39

U.S. Treasury D.O. Bottom/Top 10% Workgroups

GrandMean:	U.S. Treasury D.O. Bottom 10%	U.S. Treasury D.O. Top 10%
	2.65	4.12
	(11 workgroups)	(11 workgroups)
	%5s	%5s
Opportunities to learn and grow Progress in last six months	11 12	58 56
Best friend	13	23
Coworkers committed to quality	28	50
Mission/Purpose of company	16	45
My opinions count	6	45
Encourages development	9	46
Supervisor/Someone at work cares	7	66
Recognition last seven days	4	44
Do what I do best every day	3	32
Materials and equipment I know what is expected of me at work	11 5	31 49

Note: Average of bottom/top 10% of workgroups of 5 or more employees

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U.S. Treasury D.O. Executive Presentation 40

U.S. Treasury D.O. Least and Most Engaged Workgroups

GrandMean:	1 st Percentile	93 rd Percentile
	U.S. Treasury D.O. Least Engaged	U.S. Treasury D.O. Most Engaged
	2.42	4.26
	(1 workgroup, n=8)	(1 workgroup, n=8)
	%5s	%5s
Opportunities to learn and grow Progress in last six months	0 0	50 88
Best friend	0	17
Coworkers committed to quality	0	50
Mission/Purpose of company	13	38
My opinions count	0	63
Encourages development	0	38
Supervisor/Someone at work cares	13	88
Recognition last seven days	0	50
Do what I do best every day	0	0
Materials and equipment I know what is expected of me at work	25 0	25 63

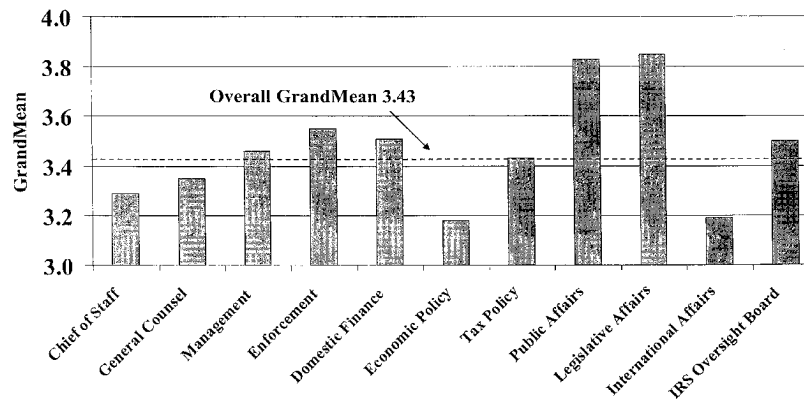
Note: Scores of the top/bottom workgroup of 5 or more employees

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U.S. Treasury D.O. Executive Presentation 41

Engagement by Office at U.S. Treasury D.O.



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U.S. Treasury D.O. Executive Presentation 42

U.S. Treasury D.O. Q12® Scores by Office

GrandMean:	Percentile				
	Overall	Chief of Staff	General Counsel	Management	Enforcement
	3.43	3.29	3.34	3.46	3.55
	(n=1,203)	(n=23)	(n=66)	(n=585)	(n=108)
	%5s	%5s	%5s	%5s	%5s
Opportunities to learn and grow	29	27	29	30	30
Progress in last six months	25	23	15	30	25
Best friend	20	9	16	23	21
Co-workers committed to quality	39	43	39	35	35
Mission/purpose of company	33	30	31	29	43
My opinions count	21	13	21	22	21
Encourages development	22	17	22	22	29
Supervisor/someone at work cares	38	35	41	39	40
Recognition last seven days	19	24	17	19	27
Do what I do best every day	18	17	11	21	19
Materials and equipment	23	26	9	29	19
I know what is expected of me at work	35	52	24	36	44

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U.S. Treasury D.O. Executive Presentation 43

U.S. Treasury D.O. Q¹²® Scores by Office (continued)

Percentile:	33 rd	40 th	16 th	33 rd	39 th
	Overall	Domestic Finance	Economic Policy	Tax Policy	IRS Oversight
GrandMean:	3.43	3.51	3.18	3.43	3.50
	(n=1,203)	(n=120)	(n=22)	(n=86)	(n=5)
	%5s	%5s	%5s	%5s	%5s
Opportunities to learn and grow Progress in last six months	29 25	29 31	24 5	31 13	20 20
Best friend	20	15	15	20	.
Co-workers committed to quality	39	43	41	60	.
Mission/purpose of company	33	48	5	42	40
My opinions count	21	21	10	23	40
Encourages development	22	25	19	23	.
Supervisor/someone at work cares	38	35	24	40	20
Recognition last seven days	19	16	15	21	20
Do what I do best every day	18	17	14	17	20
Materials and equipment	23	26	14	12	40
I know what is expected of me at work	35	32	23	36	20

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* Less than 5 respondents

U.S. Treasury D.O. Executive Presentation 44

U.S. Treasury D.O. Q¹²® Scores by Office (continued)

Percentile:	33 rd	69 th	70 th	100 th
	Overall	Public Affairs	Legislative Affairs	International Affairs
GrandMean:	3.43	3.83	3.85	3.19
	(n=1,203)	(n=17)	(n=13)	(n=139)
	%5s	%5s	%5s	%5s
Opportunities to learn and grow Progress in last six months	29 25	41 13	54 42	20 18
Best friend	20	44	45	15
Co-workers committed to quality	39	35	46	43
Mission/purpose of company	33	59	54	26
My opinions count	21	35	31	11
Encourages development	22	38	46	10
Supervisor/someone at work cares	38	53	46	28
Recognition last seven days	19	13	46	14
Do what I do best every day	18	41	23	7
Materials and equipment	23	53	31	13
I know what is expected of me at work	35	59	54	26

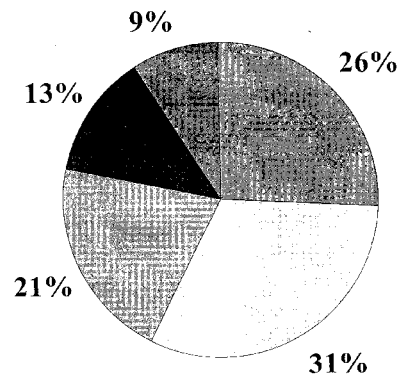
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U.S. Treasury D.O. Executive Presentation 45

“I believe my workplace is safe.”

Strongly Agree 4s 3s 2s Strongly Disagree



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U.S. Treasury D.O. Executive Presentation 46

Summary and Recommendations

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U.S. Treasury D.O. Executive Presentation 47

Summary

- **U.S. Treasury D.O. overall performance in employee engagement falls into the 33rd percentile.**
- **U.S. Treasury D.O. has demonstrated performance in creating a work environment in which:**
 - Employees are committed to doing quality work
 - Employees identify their individual jobs with the agency's mission
 - Recent hires are highly engaged
- **Sixteen percent of U.S. Treasury D.O.'s managers meet Gallup's Q¹² best practice performance criteria.**

Summary

- **A notable proportion of work teams face challenges in engaging employees. These are the areas of greatest concern:**
 - Defining the expectations of each employee in regards to their role at U.S. Treasury D.O.s
 - Aligning each employee's talents, skills, and knowledge with their day-to-day activities
 - Providing management support to your veterans in terms of:
 - Recognition
 - Coaching
 - Humanity in the workplace

Summary

- **Employee engagement at U.S. Treasury D.O. ranges greatly across workgroups with the lowest GrandMean at 2.42 and the highest at 4.26. Top-performing workgroups differentiate most from those at the bottom in terms of:**
 - **Setting clear expectations**
 - **Providing a sense that someone at work cares about them**
 - **Providing feedback about their progress**
 - **Having opportunities to learn and grow**

Recommendations

- **Commit to no negative consequences for this survey.**
- **Approach Q¹² as a developmental opportunity for all involved.**
- **Individual manager results will be shared with the manager first.**
- **Managers must attend training before they receive individual results.**
- **Create hard accountability around the feedback and action-planning process – the data show that this works in improving local culture**

Recommendations (continued)

- Excellence must be rewarded. The organization as a whole should celebrate its areas of strength.
- Employees have a strong personal commitment to quality and feel a great deal of personal significance in their contribution to the department's mission. Communicate this and congratulate your managers for contributing to these strengths.
- As opportunities for improvement are selected for action, lead from your areas of strength. Improvements of the feedback process and the *creation of a development plan for each individual* can best be facilitated by leveraging the strong commitment to quality and personal significance at the Departmental Offices of U.S. Treasury.

Next Steps – Each Manager

Q12 Manager Orientation Training

- “Why did we do this?”
- “How did I do?”
- “Which items are the most important?”
- “What can I do to improve?”

Workplace Quality Scorecard

Category	Score
Customer Satisfaction	85
Employee Satisfaction	75
Product Quality	90
Process Efficiency	80
Cost Effectiveness	70
Compliance	95
Environmental Impact	85
Social Responsibility	75
Overall Score	82

Workbook

Building a Stronger Workplace video



First, Break All the Rules

Question	Action	Measurement	Standard	Review
What are the key performance indicators for this project?	Identify key metrics and data sources.	Monthly reports.	90% accuracy.	Quarterly review.
How can we improve customer satisfaction?	Implement a feedback loop.	Customer surveys.	85% positive feedback.	Bi-weekly review.
What steps can we take to reduce costs?	Optimize resource allocation.	Cost analysis reports.	5% reduction.	Monthly review.

Team Feedback and Action Planning

Actions – Next Two Months

- Roll out executive and manager activities.
- Develop and implement organization-wide communication plan.
 - Results, next steps, expectations
- Link Q¹² to U.S. Treasury D.O.'s business outcomes.
- Start study of U.S. Treasury D.O.'s best practices.

Actions – Next Nine Months

- Managers review action plans with their managers.
- Highlights from best practice analysis are shared and celebrated.
- Communication plan highlights progress that has been achieved in the action-planning process.
- Communicate about next survey period, reiterate accountability and rewards, and expand the process to include all of U.S. Treasury.
- Begin planning for next survey process.

Actions – Next 12-18 Months

- **Complete second survey cycle.**
- **Increase education, support, and reach through Q¹² IMPACT.**
- **Develop balanced scorecard approach for U.S. Treasury D.O.**
 - **Identify key outcomes that define and measure success.**
- **Increase accountability.**
- **Recognize and reward managers who have excellent and growing scores.**

Next Steps

Your Role as a Leader

1. ALIGNMENT

- Ensuring consistency between your practices and alignment toward your goals.

2. COMMUNICATION

- Keeping people connected and moving in the right direction through ongoing dialogue.

3. ACCOUNTABILITY

- Creating a performance-based environment that sustains and replicates its successes.

Your Role as a Leader – ALIGNMENT

Consistency Between Practices and Alignment Toward Goals

- Assess the extent to which your current practices enforce or hold back employee engagement and performance in the workplace.
- Remove barriers and reinforce best practices.

➤ Strategy	Do managers understand how employee engagement is an integral part of your overall business objectives and strategy?
➤ Systems	What processes, policies, and procedures (e.g., selection, performance measurement, development, promotion) enforce or hold back your ability to manage people well?
➤ Structure	Do your organizational structure and key decision makers support this process?
➤ Shared Values	What values enforce your human capital strategy? Who is demonstrating these values? How are they doing this? What values may hold you back?

Your Role as a Leader – COMMUNICATION

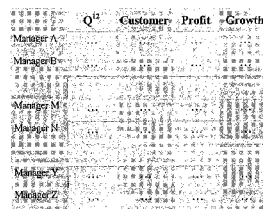
Ongoing Guidance and Two-Way Dialogue

- **Continuity** — Keep everyone informed on a continuous basis.
 - Organization-wide communication plan
 - ◆ Results — Next Steps — Expectations — Best Practices — Progress
 - Two-way dialogue: surface issues beyond manager's local control
 - ◆ Review “parking lot” issues (escalate through hierarchy, systems, etc.)
- **Consistency** — Ensure all signals people receive through both communications (what you say) and behaviors (what you do) are in sync with what you are trying to accomplish.
 - Conduct Q12® IMPACT with your own teams.
 - Set expectations and follow through with all your managers.

Your Role as a Leader – ACCOUNTABILITY

Building a Performance-Based Organization

- Ensure ownership and accountability for the manager's critical role in turning talent into performance.
 - Define and measure success (balanced scorecard).
 - Identify links between Q12 and other performance metrics.
 - Balance accountability: create desirability for high Q12 performance, make it undesirable to have low performance.



Your Best ➔ Challenge, stretch, develop, and reward

Your Middle ➔ Build foundation and develop strengths

Your Least Effective ➔ Assess and potentially recast

