

**NOMINATIONS OF J. RUSSELL GEORGE,
PATRICK P. O'CARROLL, JR.,
TIMOTHY BITSBERGER, AND PAUL JONES**

HEARING

BEFORE THE

**COMMITTEE ON FINANCE
UNITED STATES SENATE**

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

ON THE

NOMINATIONS OF

J. RUSSELL GEORGE, TO BE INSPECTOR GENERAL FOR TAX ADMINISTRATION, U.S. DEPARTMENT OF THE TREASURY; PATRICK P. O'CARROLL, JR., TO BE INSPECTOR GENERAL, SOCIAL SECURITY ADMINISTRATION; TIMOTHY BITSBERGER, TO BE ASSISTANT SECRETARY OF FINANCIAL MARKETS, U.S. DEPARTMENT OF THE TREASURY; AND PAUL JONES, TO BE A MEMBER OF THE IRS OVERSIGHT BOARD, U.S. DEPARTMENT OF THE TREASURY

JULY 7, 2004



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CONTENTS

OPENING STATEMENTS

	Page
Grassley, Hon. Charles E., a U.S. Senator from Iowa, chairman, Committee on Finance	1
Baucus, Hon. Max, a U.S. Senator from Montana	3
Sununu, Hon. John, a U.S. Senator from New Hampshire	2

ADMINISTRATION NOMINEES

George, J. Russell, to be Inspector General for Tax Administration, U.S. Department of the Treasury	6
O'Carroll, Patrick, Jr., to be Inspector General, Social Security Administration, Baltimore, MD	7
Bitsberger, Timothy, to be Assistant Secretary of Financial Markets, U.S. Department of the Treasury	9
Jones, Paul, to be a Member of the IRS Oversight Board, U.S. Department of the Treasury	10

ALPHABETICAL LISTING AND APPENDIX MATERIAL

Baucus, Hon. Max:	
Opening statement	3
Prepared statement	27
Bitsberger, Timothy:	
Testimony	9
Prepared statement	29
Biographical	31
Responses to questions from Senators Baucus and Lincoln	36
Dole, Hon. Bob:	
Prepared statement	48
George, J. Russell:	
Testimony	6
Prepared statement	49
Biographical	51
Responses to questions from Senator Baucus	60
Grassley, Hon. Charles E.:	
Opening statement	1
Prepared statement	65
Jones, Paul:	
Testimony	10
Prepared statement	66
Biographical	68
Responses to questions from Senator Bunning	74
Lincoln, Hon. Blanche:	
Letter to Hon. Van Zeck, Commissioner, Department of the Treasury, along with Treasury's response	75
Letter to Hon. John Snow, Secretary, Department of the Treasury, along with Treasury's response	78
"Foreigners Own More of Nation's Debt," Washington Post article	81
O'Carroll, Patrick Jr.:	
Testimony	7
Prepared statement	82
Biographical	87
Responses to questions from Senators Grassley and Baucus	94

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THE TREASURY**

WEDNESDAY, JULY 7, 2004

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

The hearing was convened, pursuant to notice, at 10:00 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the committee) presiding.

Also present: Senators Baucus and Lincoln.

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

The CHAIRMAN. Good morning, everybody.

We have the opportunity this morning to consider four nominations. First, we will hear from Mr. Russell George, who has been nominated by the President to serve as Inspector General for Tax Administration at the Department of Treasury.

Mr. George currently serves as Inspector General at the Corporation for National and Community Service. Throughout his long and distinguished career in public service, he has served as staff director of the House Governmental Reform Committee's Subcommittee on Government Efficiency, Financial Management, Inter-Governmental Relations. He has also served in the White House during the first Bush administration.

We will then go to Patrick O'Carroll, who has been nominated to serve as Inspector General of Social Security. Mr. O'Carroll currently serves at the Office of Inspector General at Social Security, and as Assistant Inspector General in the Office of Investigations.

Mr. O'Carroll worked with me both in my capacity as Finance chair, as well as when I was chair of the Aging Committee.

We will also hear from Timothy Bitsberger, who has been nominated to the position of Assistant Secretary, Financial Markets, within the Department of Treasury. Since October, 2002, Mr. Bitsberger has served as Deputy Assistant Secretary, Federal Finance, at the Department of Treasury. He has great experience in financial markets, both at the Department of Treasury, as well as the private sector.

Finally, we will hear from Paul Jones, who has been nominated to be a member of the IRS Oversight Board. Mr. Jones currently serves as senior vice president of Time Warner Telecom.

I would like to welcome you all to the Finance Committee hearing. We have an opportunity to have a colleague, Senator Sununu of New Hampshire, introduce one of the nominees.

Mr. Sununu?

**STATEMENT OF HON. JOHN SUNUNU, A U.S. SENATOR FROM
NEW HAMPSHIRE**

Senator SUNUNU. Thank you very much, Chairman Grassley.

I am very pleased to be here today before the committee to introduce Russell George to be Inspector General to the Internal Revenue Service.

Russell is a good friend, and someone with whom I had the pleasure of working as a member of the House of Representatives, serving on the Government Reform and Oversight Committee, and in particular with him as staff director on the Government Management Information and Technology Subcommittee.

Now, there are not a great deal of people outside the committee that know or understand the workings of that subcommittee, but I always enjoyed its work, in particular because the scope of its work and involvement and the administration and management of our Federal Government was so broad.

He provided leadership, guidance, and advice as the staff director on that subcommittee, working under Chairman Steve Horn, during a very, very critical period when Congress was developing and passing, and seen signed into law, a number of pieces of legislation that dramatically improved the accountability of the Federal Government, improved our management practices, and improved the way we deploy technology.

In particular, there was legislation like the Chief Financial Officers Act that improved the way Federal administrations did their accounting, that improved the selection of personnel, that added a level of financial accountability that didn't exist before, legislation that addressed the way the Internal Revenue Service was utilizing and deploying technology and the accountability for the procurement of technology, not just in the IRS, but throughout the entire Federal Government.

All of these pieces of legislation improved the way government operates today, but equally important will continue to bear dividends for taxpayers for many years to come.

Russell George was an instrumental figure in the crafting, development, and passage of that legislation, as any staff director would be on such a subcommittee. His experience, however, extends even

far beyond his work as staff director for a subcommittee in Congress.

He has worked as a Director of Policy in the White House, so has a strong understanding of how policy is crafted at the executive level. He has worked as the inspector general for the Corporation for National and Community Service, which is as good a training ground as you could possibly have for this next challenge as Inspector General of the Internal Revenue Service.

He has always approached his work with a dedication that, frankly, is hard to find anywhere, inside or outside of government, but is especially valued in this type of a role, that has, of course, legal and ethical responsibilities, but fiduciary responsibilities where we are looking for someone that understands how the executive works, how cabinet-level agencies work, and at the same time, understands how Congress works.

Russell George brings all of these experiences together, which is why I could not recommend him more strongly for the position. It is hard to find such a cross-section of experiences anywhere, but for this role especially, Inspector General of the Internal Revenue Service.

We all understand how important that job is, dealing with the role, the responsibility, integrity, and credibility of the IRS. If you ask anyone about Russell George's credibility, integrity, and competence, those are among the very first words that come to mind.

So, I could not be more emphatic in my support for his nomination, and am urging the committee to act quickly to confirm him so that we will have a stronger and more accountable IRS. I thank you very much, Mr. Chairman. I am pleased to be here with Russell, and all the nominees today.

The CHAIRMAN. We thank you very much for taking time out of your busy schedule to come and introduce Mr. George. If Senator Baucus does not have any questions of you, you can go. Then I will have Senator Baucus give a statement.

Senator SUNUNU. I am happy to answer any questions. I am sure you will find more substance and directness in Russell's responses, but I am happy to answer questions as well.

The CHAIRMAN. All right.

If you do not have any questions, then you go with your opening statement. Then we will call the witnesses.

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

Senator BAUCUS. Thank you, Mr. Chairman.

Thank you, nominees, for deciding that you want to help serve our country.

We consider four nominees this morning: Timothy Bitsberger, to be Assistant Secretary for Financial Markets; Patrick O'Carroll for the Social Security Administration, Inspector General; Russell George for Treasury Inspector General for Tax Administration; and Paul Jones, for the IRS Oversight Board.

These are important positions. They are responsible for ensuring the security and efficient management of some of our government's most important programs: financial markets, the Social Security program, and the voluntary tax system that we have.

The Assistant Secretary for Financial Markets is responsible for the development and sale of U.S. Government securities that are traded in financial markets. The Assistant Secretary also advises the Treasury Secretary on a broad array of matters regarding federal, State, and local finance.

In addition, the Assistant Secretary leads the Treasury's participation in the financing of the District of Columbia.

The Assistant Secretary also advises on Federal Government credit policies and lending and privatizing activities, as well as serving as a senior member of the Treasury Financing Group and the President's Working Group on financial markets. This is a big job.

Moreover, I am going to ask—and I think that Mr. Bitsberger is going to tell us—about our need to raise the debt subject to limit soon. Last year and the year before that, avoiding default by the U.S. Treasury was extremely stressful for the Treasury Department. Mr. Bitsberger will have quite a task as we try to figure out how we raise the debt between now and the next several months.

The Social Security Administration plays an essential role in getting Social Security benefits to seniors, widows, widowers, children who have lost a parent, and people with disabilities.

Making sure that the Social Security program runs properly is no small task, but it can mean the difference between life and death for a Social Security recipient.

It could mean the difference between eating or not eating—and that is literally true—or between taking needed prescription drugs or not taking them. That is also true. I have witnessed it. It is very important.

The Social Security Inspector General plays an essential role in making sure that Social Security gets the job done right. The Social Security Inspector General protects the Social Security system against waste, fraud and abuse by conducting independent and objective audits, evaluations, and investigations.

The documents and reports that the Inspector General provides have been very helpful to me over the years, and I hope to learn more today about the project that the Inspector General has planned.

Mr. O'Carroll has a strong record of public service and an extensive background in law enforcement. I am confident that he will do a fine job as Social Security Inspector General.

The Treasury Inspector General for Tax Administration is also extremely important. Congress established the position to oversee the IRS and tax administration functions by others in the executive branch. The office includes more than 900 employees.

When Congress designated the Treasury Inspector General for Tax Administration office in 1998, we maintained requirements of all other inspector generals, that the nominee should be appointed without regard to political affiliation and solely on the basis of such appointee's integrity and ability.

Congress also recognized the enormity of the job of overseeing tax administration, so we required that the Inspector General for Tax Administration have experience running a large organization.

The next Inspector General for Tax Administration faces a daunting task. The IRS tells us that there is an annual tax gap of

more than \$300 billion each year. That is \$300 billion in taxes that are owed, but not collected, every year.

The Treasury Inspector General for Tax Administration will be charged with identifying where the IRS's collection efforts have fallen short and making recommendations as to how to ensure a more efficient and effective IRS.

Needless to say, experience in tax policy and tax administration is important. I understand that Mr. George does not have this type of experience. I urge him, therefore, to pay heed to the many capable career employees in the office of the IG.

While I have concerns about Mr. George's nomination, I have an open mind, especially about his ability to succeed in this job. I look forward to hearing from Mr. George about how he plans to take the hard steps necessary to help reform the IRS, a problem we have had for a long time.

Mr. George, this may take some biting some heads and it will not always make you popular with the administration or the political branches, but it will make you effective. The integrity of our voluntary tax system depends on your diligence.

Finally, we have a nominee to the IRS Oversight Board, Paul Jones. The IRS Oversight Board performs a useful function. The board oversees the Services Administration's execution and application of our tax laws.

Mr. Jones comes to the board with experience in information technology. Mr. Jones is coming into the position that is critical to our voluntary tax system. The IRS has spent billions—that is, billions—in trying to modernize the 1960's technology.

Congress is frustrated with the IRS's lack of progress, and the American taxpayer deserves to see improved service. So, I urge Mr. Jones to take charge. No more excuses. It is time to see us get some real results. I am eager to hear from him, as well as the other nominees. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Baucus, you gave a very complete statement. I did not give that long of a statement. I am glad that you did, because it is important that we point out in our oversight capacity that we are concerned about who holds these positions.

Wherever there is independence, whether it is an inspector general or whether it is a member of an oversight board, all those things, I want to emphasize that there is a certain amount of independence.

I expect people appointed to those positions to exercise that independence in order to have the integrity of the office and the goals that Congress wanted to accomplish in setting up the office actually be performed.

Now, what we will do, is starting with Mr. George, then Mr. O'Carroll, then Mr. Bitsberger, then Mr. Jones, we will ask each of you to give whatever statement you want to give to us, but a longer statement would just be automatically put in the record without your asking and we would ask you to summarize.

Before you speak, each of you should introduce family members that you want to have recognized. We welcome them here. They ought to be very proud of you for the acknowledgement of the ability that your appointment represents.

So, we will start with you, Mr. George.

Mr. GEORGE. Thank you, Mr. Chairman.

At the outset, I would like to introduce both my mother and father, who traveled from New York to be with me today.

The CHAIRMAN. Thank you for standing.

Mr. GEORGE. I would also like to just say to them, thank you for instilling in me the values that afforded me this opportunity. I love them very much.

The CHAIRMAN. Thank you very much. Congratulations to you as parents.

Mr. O'Carroll?

Mr. O'CARROLL. Thank you, Mr. Chairman. At this time I'd like to introduce my wife, Elaine O'Carroll, who has been with me for the last 24 years and has stuck with me through thick and thin.

The CHAIRMAN. Very good.

Mr. Bitsberger?

Mr. BITSBERGER. Thank you, Mr. Chairman.

I would like to introduce my wife, Cheryl, and mother of our 4-year-old twins. Thank you.

The CHAIRMAN. Thank you.

Senator BAUCUS. How old are your twins?

The CHAIRMAN. Yes.

Mr. BITSBERGER. Four.

The CHAIRMAN. All right.

Now, Mr. Jones?

Mr. JONES. Mr. Chairman, thank you. I would like to introduce my wife, Ruth, of 6 years. She is behind me, and has stood behind me faithfully and I thank her for that.

The CHAIRMAN. All right. Thank you.

Senator BAUCUS. That reminds me. This is probably inappropriate. I was at an event not long ago, Mr. Chairman, where a man was honored. They said, behind every successful man, there is a surprised wife. [Laughter.] I do not think she is surprised.

The CHAIRMAN. Now, we are going to go through all of the opening statements. So, Mr. George, would you start out?

STATEMENT OF J. RUSSELL GEORGE, NOMINATED TO BE INSPECTOR GENERAL FOR TAX ADMINISTRATION, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Mr. GEORGE. All right. Thank you.

Chairman Grassley, Senator Baucus, thank you for the opportunity to provide some testimony today. It is an honor to be here as the President's nominee for the position of Treasury Inspector General for Tax Administration. I am truly grateful to the President for the trust placed in me by his nomination.

I would also like to thank Senator Sununu for his gracious introduction and for his assistance with my nomination.

Mr. Chairman, Senator Baucus, I have served as an inspector general for nearly 2 years. Prior to that time, I had the opportunity to assist the chairman of the subcommittee in the House of Representatives with responsibility for overseeing the implementation of the Inspectors General Act.

For over 7 years in that position, I worked with inspectors general as they performed their roles. I have worked with inspectors

general. I observed first-hand how the activities of inspectors general can benefit agencies, Congress, and the Nation.

From that experience, as well as my current position, I have come to the following conclusion: an inspector general is not another general counsel of an organization.

The IG function is to identify waste, fraud and abuse and advise both the agency head, as well as Congress, on his or her findings with the goal of stemming inappropriate activity and helping to avoid its recurrence.

Given the very important role the Internal Revenue Service provides to the Nation, I am very much aware of the sensitive nature of the position for which I am being considered. I assure you that, if confirmed, the Office of Inspector General will be zealous in its oversight of the agency.

In 1995, when I joined then-chairman Steven Horn as a Staff Director of the House of Representatives' Subcommittee on Government Management, one of the first charges I received from him was to examine issues pertaining to the Internal Revenue Service, especially those identified as being at high risk of waste and abuse.

Among the first issues we reviewed were what was then referred to as the Tax Systems Modernization Initiative, and is currently referred to as Business Systems Modernization, what is now referred to as the tax gap that Senator Baucus referred to, and other compliance issues, and the issue of erroneous and improper payments.

As you note, these very same issues which we reviewed nearly a decade ago still persist, and in some cases have been exacerbated. They will be among the first areas that I will focus on, if confirmed.

In addition, I had the opportunity to assist with the House of Representatives' consideration of the Internal Revenue Service Restructuring and Reform Act, which, as you know, established the position of Treasury Inspector General for Tax Administration.

Working with Representative Portman and his staff on this legislation enhanced my understanding of the significant role of the Inspector General for Tax Administration.

Mr. Chairman, once again, thank you for the opportunity to appear here today. I have devoted most of my life to public service. If afforded the opportunity to assume the position to which I have been nominated, I will do my level best to ensure that the Office of Treasury Inspector General for Tax Administration continues to assist the Assistant Secretary of the Treasury and the Commissioner of the Internal Revenue Service in their efforts to ensure that the IRS serves the Nation in a more efficient, effective, and responsive manner. Thank you.

The CHAIRMAN. Thank you, Mr. George.

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

The CHAIRMAN. Now, Mr. O'Carroll?

STATEMENT OF PATRICK P. O'CARROLL, JR., NOMINATED TO BE INSPECTOR GENERAL, SOCIAL SECURITY ADMINISTRATION, BALTIMORE, MD

Mr. O'CARROLL. Good morning, Mr. Chairman, Ranking Member Baucus, and members of the committee.

I appreciate the opportunity to appear before this distinguished panel to discuss my vision for ensuring the integrity of Social Secu-

rity's programs, should I be confirmed. I am honored that President Bush has nominated me for the position of Inspector General for the Social Security Administration.

Henry Clay observed, "Government is a trust and the officers of government are trustees, and both the trust and the trustees are created for the benefit of the people."

Although Americans face new challenges at home and abroad, there is no better time to be their trustee. In my 34 years of public service, I have received extensive law enforcement experience and management training, including a master of forensic sciences degree from George Washington University. Additionally, my 26 years with the U.S. Secret Service have provided me with valuable experience as an investigator and a leader.

At SSA's Office of the Inspector General, I have held various positions of increasing responsibility, including Special Agent in Charge of Congressional Affairs, Strategic Enforcement, and Assistant Inspector General for External Affairs.

Most significantly, over the past 4 years I served as the Assistant Inspector General for Investigations, where I led investigators and employees in 64 offices throughout the Nation.

In this position, I undertook a number of initiatives to reduce fraud, waste and abuse in SSA's programs and operations. This includes my leadership of OIG's efforts in the Cooperative Disability Investigative Program, the Fugitive Felon Program, Identify Theft Task Forces, and, most importantly, Homeland Security.

No program touches more lives than Social Security. As stewards of the sacred trust, we work continuously to maintain the efficiency and effectiveness of SSA and its programs and to eradicate waste, fraud and abuse.

An important part of our mandate is to provide timely, useful, and reliable information and advice to administration officials, Congress, and the public.

To meet this mandate, in 1997 I established an Office of External Affairs, focusing on quality assurance, Congressional liaison, and vitally important, to foster a strong, open relationship with Congress while providing timely and accurate information.

Ultimately, our relationship depends on our performance. We must continue to conduct our audits and investigations with the strictest adherence to legal and professional standards and make the most efficient use of our resources to prevent fraud on the front end of SSA's business processes.

Today, we are focused on the threat of terrorism and the impact it can have on our everyday lives. Social Security programs face additional challenges, and we must take them seriously.

We learned after the September 11 terrorist attacks that government departments and agencies at every level must be able to communicate and share information in a timely fashion. At the same time, it is our duty to protect the privacy of every citizen.

If confirmed, I will make it a top priority to continue developing collaborative relationships with fellow Federal, State, and local departments and agencies to foster greater communication.

Another priority of mine is to continue developing OIG through better recruitment programs to attract highly capable candidates, representing the mosaic that is America.

Should I be confirmed, our organization will continue to function as a critical law enforcement arm and key management tool for SSA. We will continue to vigorously pursue those who try to take advantage of SSA's programs, operations, or beneficiaries, while safeguarding the precious resources allotted to us.

We will also continue to work with the agency to identify opportunities to improve efficiency and effectiveness. I look forward to working with Congress and Commissioner Barnhart to help SSA meet these, and other, challenges.

Because Social Security plays such an important role in the lives of Americans, I would consider it an honor to serve as the next Inspector General of Social Security.

Thank you for this opportunity. I will be pleased to answer any questions.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. O'Carroll appears in the appendix.]

The CHAIRMAN. Mr. Bitsberger?

STATEMENT OF TIMOTHY BITSBERGER, NOMINATED TO BE ASSISTANT SECRETARY OF FINANCIAL MARKETS, U.S. DEPARTMENT OF THE TREASURY

Mr. BITSBERGER. Chairman Grassley, Ranking Member Baucus, and members of the Committee on Finance, thank you for the opportunity to appear before you and your committee today.

I am honored to be President Bush's nominee to be Assistant Secretary of the Treasury for Financial Markets, and am grateful for Secretary Snow's confidence in me.

If confirmed, I look forward to the opportunity to work in this role with Secretary Snow, the Treasury staff, others in the administration, and the Congress on the variety of issues pertinent of the Office of Financial Markets.

For the past two and a half years, I have had the privilege of serving as the Deputy Assistant Secretary of Federal Finance for Treasury, where my primary responsibility has been managing the Federal debt.

We have made great strides in our objective of achieving the lowest cost of financing over time for the American taxpayer. By improving the transparency of our decision making, we have reduced investor uncertainty. But expanding our offering of securities beyond the traditional mix, we have taken significant steps to expand and broaden our investor base.

By improving our computer systems, we have created a more efficient and accessible electronic marketplace, allowing any investor the opportunity to readily participate in our auctions. Though difficult to precisely quantify, these efforts have helped us to reduce and lower the cost of financing the debt.

The past 2 years have been an especially demanding time for public service, and there is no reason to think that this will change in the future. If confirmed, I look forward to the opportunity to work with this committee on formulating policy and legislation in the areas of public debt management, financial markets, government financial management services, and Federal lending.

I have now worked for approximately 20 years in the capital markets, primarily in the credit markets. I first started trading U.S. Treasuries in 1986, and have witnessed profound changes not only in the U.S. Treasury market, but also in all the financial markets.

Though the bulk of my private career was spent trading and investing, I have had exposure to most financial market issues. I believe this gives me a unique perspective of the give and take required between the public and private sectors.

Thank you again, Mr. Chairman, for the privilege to appear before this committee. If confirmed, I can promise you I will work closely and with an open mind with you, members of this committee, and committee staff.

Thank you.

The CHAIRMAN. Mr. Bitsberger, thank you.

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

The CHAIRMAN. Now, Mr. Jones?

STATEMENT OF PAUL JONES, TO BE MEMBER OF THE INTERNAL REVENUE SERVICE OVERSIGHT BOARD, U.S. DEPARTMENT OF THE TREASURY

Mr. JONES. Thank you. Thank you, Chairman Grassley and Ranking Member Baucus. Thank you for holding this hearing today.

I am honored, as echoed by the other nominees, to appear before this committee as you consider my nomination to become a member of the IRS Oversight Board. I thank the President for nominating me, and the Secretary of the Treasury for choosing me as a candidate.

As I have said, my wife Ruth is seated behind me, and she joins me in thanking you for conducting this hearing today.

I am a graduate of both Yale College and Yale Law School. In private law practice early in my career, I joined the Coudert international law firm in Paris, representing large, multinational clients and transactions, including corporate and tax structuring. Moving back to New York in 1973, I remained with the Coudert firm and developed skills as a trial lawyer, representing the three major broadcast networks.

During that period, the CBS "60 Minutes" program became my principal client under their relationship with Lloyds of London.

Press coverage of issues raised in one of my "60 Minutes" cases brought my name to the attention of the Federal Communications Commission in 1976, when I was invited to serve as a co-director of an FCC task force charged with exploring the economics of video program production and distribution.

The ultimate goal of that task force was to recommend regulatory change that would increase program choice for the American public beyond the three commercial broadcast networks. I accepted that position, and also served as Assistant General Counsel for the FCC.

That was my first foray into public service. Based on that experience, I hoped that, again, later in my career, I would have the opportunity to serve the public, sharing experience gained in the pri-

vate sector. Happily, I am before you today, seeking confirmation so that I may serve on the IRS Oversight Board.

In the years following that FCC experience, I have served as vice president for Strategy and Business Development for CBS, as general counsel for Warner Communications' cable business, as senior vice president of Corporate Development for Time Warner Cable Ventures.

Serving as senior vice president, general counsel, and regulatory policy for Time Warner Telecom, I am part of the senior management team that has grown Time Warner Telecom from an idea to a successful publicly traded company. That company is 41 percent owned by Time Warner, Incorporated, but traded separately on the Nasdaq stock exchange.

Creating and executing on the strategy or vision for the company is the principal responsibility for our senior management team and our board of directors, which, as secretary of the company, I also serve.

I now find myself in the position where the knowledge and experience I have gained through my corporate experience can be put to good use in the service of the public.

I am honored and privileged to be nominated to give something back to my country, and I believe that by serving as a member of the IRS Oversight Board, I can apply the good governance principals I have learned in the private sector to a public sector institution that affects virtually every American.

In recommending the creation of the IRS Oversight Board, the National Commission on Restructuring the Internal Revenue Service issued its report in 1997, stating, as Chairman Grassley well knows, that the IRS Oversight Board should be focused on providing strategic direction to the IRS.

If confirmed, I will embrace that mission, steered in the conviction that the interests of the American taxpayers are served where improved and modernized business processes and systems support both service and enforcement by improved and simplified processes both for filing and administration, and by awareness programs that help both taxpayers and tax professionals understand that, as a country, we are far better off with core values that support, rather than avoid, the payment of our taxes.

Thank you again, Chairman Grassley, Ranking Member Baucus, and members of the Senate Finance Committee, for the honor of appearing before you today.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Now we have three routine questions that we will ask each one of you to respond to.

First, 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. George?

Mr. GEORGE. No, Mr. Chairman.

The CHAIRMAN. Mr. O'Carroll?

Mr. O'CARROLL. No, Mr. Chairman.

The CHAIRMAN. Mr. Bitsberger?

Mr. BITSBERGER. No, Mr. Chairman.

The CHAIRMAN. And Mr. Jones?

Mr. JONES. No, Mr. Chairman.

The CHAIRMAN. Thank you.

Second, 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. GEORGE. No, sir.

The CHAIRMAN. Mr. O'Carroll?

Mr. O'CARROLL. No, Mr. Chairman.

Mr. BITSBERGER. No, Mr. Chairman.

Mr. JONES. No, Mr. Chairman.

The CHAIRMAN. Thank you.

Third, 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. GEORGE. I do, Mr. Chairman.

Mr. O'CARROLL. Yes, Mr. Chairman.

Mr. BITSBERGER. Yes, Mr. Chairman.

Mr. JONES. Yes, Mr. Chairman.

The CHAIRMAN. And before I forget, before I ask questions and Senator Baucus asks questions, one of the things that is very important for Senator Baucus and I moving your nominations, is if other members of the committee primarily, but even any member of the Senate, that has asked you for answers to questions and they have not been responded to, we do not like to go ahead—only under unusual circumstances—until those are responded to. So, it would help you and the Senate's consideration of your nomination if you would give answers to those questions.

Mr. George, you have been nominated for an extremely important position, as I and Senator Baucus have already indicated, a position that I was personally involved in creating. The statute creating the office required "demonstrated ability to lead large and complex organizations."

In reviewing your background, you certainly have some fine accomplishments, but I am concerned about your ability to lead a large organization. So, I would ask you to respond as to your capabilities of doing that.

Mr. GEORGE. Thank you, Mr. Chairman, for the opportunity to respond to that issue.

While my current office consists of approximately 25 individuals, I do run an organization that oversees the management, the activities of programs that have hundreds of grantees and thousands of subgrantees all over the country.

In my capacity as staff director of the Subcommittee on Government Management, Information and Technology, we had oversight responsibility for the entire executive branch of the Federal Government, which consists of, as you well know, over 2 million individuals.

I have learned over the last 10 years or more that, regardless of the size of an organization, a capable leader has to delegate to trusted individuals and set the tone, set the direction, but allow for these individuals to perform their functions well and faithfully.

Whether you have 10 individuals in an organization or 10,000 individuals in an organization, an effective leader cannot be by each and every one of them. That individual has to rely on trusted aides.

Fortunately, the Treasury Inspector General for Tax Administration has a very capable staff. The Acting Inspector General, Pam Gartner, whom I know well, is very capable. Her deputies, both on the investigative side and audit side, are tremendously capable.

There is no question in my mind that I would be able to put faith in them to have them give me direction at times. I have to admit, Mr. Chairman, and Senator Baucus pointed out, that I am not a tax expert. He is exactly right.

When I was approached by the administration to be considered for this position, I readily acknowledged that. They indicated to me, however, that it is not tax law experts that they thought were needed for this position.

That evoked immediately something that occurred when I was Staff Director of the Subcommittee on Government Management, when Chairman Horn said to me, draft a letter to the President, when Margaret Richardson stepped down from the position as Commissioner of IRS, and indicate to them, President Clinton, that he should not appoint a tax lawyer or a tax expert, but rather someone who had expertise in management issues and who understood how information technology is key in the 21st century. Chairman Horn took great pride in the fact that the President indicated, in both a response to him as well as in his appointment subsequently of Mr. Rossotti, someone who did not have tax expertise as his background.

So the bottom line, sir, is, yes, while I acknowledge this would be the largest organization that I have ever headed, I am smart enough to know what I do not know, and smart enough to realize that there are more capable individuals that I will be able to rely on to help me in this responsibility, if confirmed.

The CHAIRMAN. All right.

Mr. George, I am concerned about voices within the administration—and these are not a whole lot different than in the previous administration—that would like to have IGs generally, not just the position you are being appointed to, in the business of assisting management, and putting on the back burner the role of looking for waste, fraud and abuse.

I am troubled by such an approach in any administration, for several reasons. First, if the IG is not looking for waste, fraud and abuse, no one else will be. Second, if you do not know what the problems are in terms of waste, fraud and abuse, it is hard to know what management reforms are needed.

So, I would ask for your views on this. I am comforted by the fact that you did work for a person by the name of Congressman Horn, now retired, who I had a chance to work with on several things that were wrong in the Defense Department. So, I think that his attitude is good.

If you worked with him and you have that same attitude towards seeking out waste, fraud and abuse within your agency, you have a good background for that. But I would still like to have your response.

Mr. GEORGE. Again, thank you for the opportunity to respond, Mr. Chairman.

Yes. I disagree with the position that you stated that some in the administration hold. I believe that the role of the Inspector General is one of the most key responsibilities in a department or agency.

Again, if confirmed, when I put my hand up, I will have taken an oath to uphold the constitution, but also to adhere to the requirements of the Inspector General Act.

If, in any instance, an allegation of waste, fraud and abuse comes to my attention and I present that information to the Commissioner of the Internal Revenue Service or to the Secretary of the Treasury, pursuant to the time constraints provided within the Inspector General Act, adequate information or responses are not forthcoming, I will then, of course, use the mechanisms available to me under that act to report, first of all to the Congress, and to take any other action that I deem appropriate to ensure that the allegations are addressed.

There is no question that we are watchdogs, that Members of Congress have limited staff and limited resources and are not within the organization, and that the Inspector General would have a perspective, an advantage, that is something that, in all candor, I wish when I was the staff director of a House subcommittee I had had access to.

I realize, Mr. Chairman, again, as a person who worked very closely with IGs, how important the IG role is. I do not believe that one can wait for a semi-annual report to be issued before approaching Congress about issues that arise.

I can assure you that I will be very diligent, if confirmed, in terms of reporting to Congress, reporting to the agency head, allegations of wrongdoing and making recommendations to address those.

The CHAIRMAN. Mr. Jones, I would like to make one point to you and ask one question. My point—and this is equally appropriate for the two Inspector General nominees that we have before us—is that I expect you to be independent.

Senator Baucus has made that point, and I have made it two or three times. You are not to be a cheerleader or an echo for management. The role of oversight is exactly that, oversight. It is not called the advocacy board.

That said, what do you see as your top priorities in your work on the IRS Oversight Board?

Mr. JONES. Mr. Chairman, I appreciate the comments on independence and fully understand the role of the board to be exactly that, independent, and to dig into the information that is provided to it, and try to understand it and evaluate it objectively.

In regard to priority, the gap that Senator Baucus referred to is troublesome. It appears to me that there may be opportunity to help the agency provide the tools and implement the tools that will increase voluntary compliance and increase compliance overall, always being mindful of taxpayer rights in the process, but improving the performance of the agency through voluntary compliance seems to me to be a key objective.

The CHAIRMAN. I am going to go to Senator Baucus now.

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

Mr. Jones, what is the role of the Oversight Board? What is it supposed to do?

Mr. JONES. As I understand it, given the report of the commission that preceded the Restructuring Act, it is to assure that the operating decisions of the Internal Revenue Service are consistent with a long range strategy that will assure ultimately that those operating decisions are consistent with improvement in closing the gap, improving enforcement and collection.

Senator BAUCUS. Who does the board report to?

Mr. JONES. It reports to the Senate Finance Committee.

Senator BAUCUS. Only?

Mr. JONES. And to the President.

Senator BAUCUS. Only?

Mr. JONES. To the people.

Senator BAUCUS. I do not mean to be cute here. The board reports to both the President, as you understand it, and to the Finance Committee and Ways and Means, or is it to the Congress, or whom?

Mr. JONES. Well, it is to the Senate and to the Congress. It is my understanding that it is to serve as an oversight watchdog, to assure that reporting back to the Congress is consistent.

Senator BAUCUS. How often does the board report? First of all, how often does it meet?

Mr. JONES. It meets six times each year, as I understand it, 2 days at each session. Then I am assuming that in addition there would be time that I would spend, independent of those face-to-face, two-day meetings, being involved in committee work. With respect to reporting, there is an annual report. I have read the 2002 and 2003 reports.

Senator BAUCUS. What power does the board have, besides reporting?

Mr. JONES. It has power to recommend to the President and to the Congress the Commissioner, the director position of the IRS. It has power to review the budget submitted to Congress by the agency. There were other powers that were recommended, but those are the ones that jump to me as key.

Senator BAUCUS. To be honest, I am a little skeptical of the usefulness of the board. I hope you can change that around. The board is not known for doing anything earthshaking around here in the last 20-some years since I have been in the Congress. I hope you can change that.

If so, it would be because of the power of your own personal persuasion to make something out of this board. In the past, my view is that it is just basically a rubber stamp, an honorary title. They do not do much. They make recommendations that fall on deaf ears. I would, again, suggest that you do your utmost to change that perception of the board.

Mr. George, as you well know, the administration, in its budget proposal, suggests the consolidation of the Treasury Inspector General's office with the Treasury Inspector General for Tax Administration's office.

As you well know, this proposal by the President reverses the law that was just passed in 1998, after a year-long commission study and a year of congressional debate and hearings on the IRS.

Do you support that recommendation?

Mr. GEORGE. Mr. Chairman, I understand the administration's position in terms of wanting to ensure economy and efficiency in terms of, with the creation of the Department of Homeland Security and its Office of Inspector General, which siphoned off almost 80 percent of the staff of the Department of Treasury's Office of Inspector General.

So, while there was a very good reason for establishing a separate Office of Inspector General for Tax Administration, given the fact that there are very few, or relatively few, staffers remaining with in the Department of Treasury's Office of Inspector General, I do understand why the administration would propose that. In all candor, I will do whatever it is that the Congress directs me to do, and what the President ultimately signs into law or not.

Do I think that a combined office would be feasible and would function well? If I were able to head it, yes, I do. If the status quo were maintained, obviously it has worked. But again, given the fact that you had quite a few staffers and functions taken away from it, it might make sense economically to combine the functions. But, again, I would do whatever the Congress instructs through legislation, and the President.

Senator BAUCUS. But do you have a personal view? Privately, would you favor it or oppose it? Is it a good idea or not a good idea?

Mr. GEORGE. Well, Senator, there is no question that the administration of tax laws is difficult. My druthers would be to focus on that. But, again, I am doing whatever I am required to do, if confirmed. My druthers would be to focus on tax administration.

Senator BAUCUS. Why do we have a tax gap as large as it is?

Mr. GEORGE. Well, that is a very good question, Senator. I mean, you have, of course, an underground economy where people who owe taxes are not paying them.

You have the dichotomy of policies that want the tax offices to be responsive and, in effect, friendlier to the taxpayer, and yet at the same time the tools, the resources that are needed to ensure that audits are conducted and that investigations are conducted, they are not matching the growing demand.

As you well know, the number of tax returns, the revenue that is brought into the treasury, has increased tremendously over the last few years. Yet, the number of employees, both at the Internal Revenue Service as well as at TIGTA, has fallen.

Of course, with the passage of the RRA 98, more protections have been provided to taxpayers, and I think those are appropriate protections. But more rights have been given that some would argue would hinder the more efficient recovery of past due debts.

Senator BAUCUS. As you probably know, it is not so much the underground economy that causes the tax gap, it is just the failure to report.

What would you do about that?

Mr. GEORGE. Well, again, my job, of course, would be to investigate where the agency is not doing its job in terms of collecting taxes.

Senator BAUCUS. Where, specifically, do you think the agency needs a little help?

Mr. GEORGE. Well, it is in a proposal that Chairman Horn and I first worked on back in 1996 under the Debt Collection Improvement Act, which, at that time, Senator, received quite a bit of resistance.

But I am glad to see that both the President and the Congress have since changed their points of view on it. That is, allowing for the use of private debt collectors with proper constraints on their activities, but allowing them to go into collect amounts of money that are outstanding. I mean, that is one of a number of tools that I think could be utilized better.

Senator BAUCUS. Why has nothing been done about the tax gap? Why is it getting worse? This is not the first time there has been a discussion about the tax gap. It is not the first time that Treasury and IRS personnel have not been before this committee and discussed it. It is not the first time that we have asked this question. What is your view as to why it is not solved?

Mr. GEORGE. Well, unfortunately—or fortunately, depending upon your point of view—you have some smart tax lawyers out there who have found creative ways to assist people who do not want to pay everything they are required to.

Senator BAUCUS. Well, we are not talking about the smart lawyers who are creating illegal shelter transactions. We are talking about people who are just not reporting. You do not need a smart lawyer there, in most cases.

Mr. GEORGE. No. That is true, sir. I would also point out again, since the focus has been, at least at one point, taken away from audits, especially of certain organizations and individuals who might have provided a deterrent effect, people seem to think that they can get away with it.

So, I know that Commissioner Everson has announced that he would like, and has begun, an effort to change that focus to enhance the responsiveness of taxpayers. I think it is a must, sir. It is just quite unfair. It is the wrong message to send.

Senator BAUCUS. Do you think the IG statute, or any statute that you would be operating under, is sufficient for you to address the responsibilities that you will be undertaking? Is the statute sufficient? Does it give you enough power?

Mr. GEORGE. I think so. I believe it does, sir.

Senator BAUCUS. Could you point out where in the statute you think it gives you enough power?

Mr. GEORGE. In terms of initiating audits and investigations.

Senator BAUCUS. Initiating and so forth.

Mr. GEORGE. Correct.

Senator BAUCUS. You would not ask us to amend the statute to give you more power?

Mr. GEORGE. Well, in all honesty, there is a proposal that the inspectors general now are working on that is not focused solely on TIGTA that would enhance the role and the ability of inspectors general to perform their jobs well, and that is forthcoming. The Congress should be receiving something shortly. But at this stage, I believe that TIGTA has the tools and the wherewithal to do its job well.

Senator BAUCUS. And whom do you report to?

Mr. GEORGE. Well, directly, it is the Secretary of the Treasury, as the agency head.

Senator BAUCUS. What reporting requirement or obligation do you have to the Congress?

Mr. GEORGE. Well, under the IG Act, the semi-annual report, as well as, if there is an investigation that I engage in and there is a failure on the part of the Secretary of the Treasury to take appropriation action as required under the Inspector General Act, I have a tool, the seven-day letter, that allows me to go directly to the Congress and report to you directly. But there are other independent reporting requirements that I can supply for the record later, Senator, if you would like.

Senator BAUCUS. I am just curious. I do not mean to give you a hard time. But you are saying, if the Treasury Secretary fails to do what, then you can go to Congress? I misunderstood.

Mr. GEORGE. Well, there are a number. If I engage in an audit or an investigation that provides recommendations to the agency head, they have 30 days in which to respond to recommendations, in some certain circumstances.

Then they have up to a year in which to complete recommendations. There are various time limits set in the Inspector General Act, Senator, so it would depend on the circumstance.

In one instance, if there are allegations of criminal wrongdoing, unlike other inspectors general, the Treasury Inspector General for Tax Administration has the ability to go directly to the Attorney General with allegations of wrongdoing.

Senator BAUCUS. What obligations do you have to respond to Congress, to inform Congress, keep Congress fully informed about investigations?

Mr. GEORGE. I believe in most circumstances, Senator, that the Inspector General has an obligation to report to Congress, one, if it is in response to a Congressional request for information, and most importantly, again, if there is a failure on the part of the agency head to respond to an allegation of wrongdoing that has been brought to his or her attention.

Senator BAUCUS. In what instances might there not be responsibility to inform Congress? You said "most instances."

Mr. GEORGE. Yes. Well, on a routine audit of a program.

Senator BAUCUS. No obligation to inform Congress if Congress wants it?

Mr. GEORGE. Well, if Congress wants it, no, I have an obligation to provide it.

Senator BAUCUS. What do you see as the scope of your authority? That is, if you are investigating potential fraud and abuse in the IRS and so forth and there are some allegations of, say, political influence from the White House, would you regard investigations into whether there was improper political influence as within the scope of your authority or not within the scope of your authority?

Mr. GEORGE. I believe it would be within the scope of my authority.

Senator BAUCUS. And might I ask why you think that?

Mr. GEORGE. The question indicated that that it was improper influence.

Senator BAUCUS. Right.

Mr. GEORGE. So anything improper, I would bunch in with allegations of waste, fraud, but abuse in this instance. It really would depend on the circumstances, Senator.

Senator BAUCUS. I am just suggesting that if, say you were conducting an investigation and it is quite apparent. I am not pointing fingers at any administration. I am speaking generally, now.

If, say, Congress is not given information that we all think Congress should receive because someone in the White House, Republican or Democratic administration, whatever, indicates to somebody, say in the IRS or Treasury, do not give that information, even though Congress should have it, that is, there is some improper influence, do you think it is appropriate for you as Inspector General, in trying to determine what happened, to try to determine whether there was improper outside influence that prevented information from going to Congress?

Mr. GEORGE. The direct answer, Senator, is if you or any other member of the Senate or House were to indicate to me, ask the Inspector General to investigate this allegation, yes, it is completely within my scope to do so. Whether or not this is something that would be self-initiated, I just, at this stage, could not guess.

Senator BAUCUS. All right.

Now, what happens if the Congress asks for such investigation and it is in good faith, totally legitimate, but say the Secretary says, no, do not do that, Mr. George?

Mr. GEORGE. Under the Inspector General Act, as amended, he would not have the ability to stop me.

Senator BAUCUS. I appreciate that. Thank you very much.

I have a couple of more questions, but I have taken a lot of time, too.

The CHAIRMAN. We have another Senator who has come, the Senator from Arkansas.

Before I call on her, Mr. Bitsberger, I hope that you will not feel less important if I do not ask you any questions.

I am going to submit three questions to Mr. O'Carroll for response in writing.

[The questions appear in the appendix.]

The CHAIRMAN. Senator Lincoln?

Senator LINCOLN. Thank you, Mr. Chairman.

The CHAIRMAN. And then be mindful of the fact that Senator Baucus has a couple of more questions.

Senator LINCOLN. A couple more. I will try to be brief.

Senator BAUCUS. Senator, it is all yours.

Senator LINCOLN. Thank you, gentlemen, for being here and giving us the opportunity to get to know you better. You introduced yourselves.

I guess a lot of it has to do with my background. I am very proud that my heritage is very similar to the two gentlemen here, the Chairman and the Ranking Member. We come from farming and ranching families. We have a tendency to be a little bit conservative on the fiscal side of things and very concerned about how they are dealt with.

I have to say, we have heard a lot of talk about dependence on foreign oil. I guess I am really here today because of my incredible

concern about our Nation's increasing dependence on foreign capital.

I am particularly concerned about China's voracious appetite for the U.S. debt, and would like to ask a few questions concerning some of the questions I have actually already proposed to the Treasury.

In June of last year, I wrote the Treasury Department a letter where I asked very specific questions, looking for trends that were emerging in the U.S. debt market. I am truly my grandfather's child. He always told me that debt was a dangerous thing and you should never let it get too much in control of you.

Specifically, in my letter I said I was particularly interested to review any data that the Treasury Department has gathered concerning trends in debt purchases by foreign governments.

After I was bounced around the Treasury Department for several months, I eventually was sent a chart, which I really could have gotten off the Web in the first place. It was a chart of just static information.

The response, to say the least, was not very helpful, and certainly a little bit disappointing to me in terms of what I feel like the Treasury Department should be doing in its investigation.

I wrote another letter, and this time it went to Secretary Snow, in October, where I again asked specific questions about who was buying up our debt. Again, I received a very weak response from the Treasury Department.

At this time, Mr. Chairman, I would like to submit the correspondence for the record, if I may.

The CHAIRMAN. Yes, you may do that.

Senator LINCOLN. Thank you.

[The correspondence appears in the appendix.]

Senator LINCOLN. Yesterday, more than a year after my very first letter, there was an article in the Washington Post that some of you all may have read which states, "The statistics show that the foreign and international investors account for the entire increase in privately owned treasury securities since President Bush has taken office," the alarming amount of debt that we are seeing that the Treasury is now holding. So, I would like to submit that article for the record as well, Mr. Chairman, if I might.

The CHAIRMAN. It will be included.

[The article appears in the appendix.]

Senator LINCOLN. Great. Thank you.

I guess, really, one of my comments and questions, as well, Mr. Bitsberger, is my hope is that when a member of the Senate Finance Committee writes a letter, that we will get an answer, with hopefully the full effort of the Treasury trying to give us information that is useful, not static information or something I can pull off the Web.

My hope is that we will have a working relationship where you can provide us the kind of information, investigative information, that can really be helpful in bringing up the issues that we feel like perhaps could be dangerous to our country, and things that we need to be working on.

So, I guess that is my first question. Can you comfortably tell me today that I am going to get a good response out of your department over there?

Mr. BITSBERGER. Senator, if confirmed, I will do everything in my power to give you the information that you request.

Senator LINCOLN. Well, I hope so, because avoiding the responsibility to share that information with people who are making policy decisions for our country, I think, is a very dangerous thing. We have experienced some of that. My hope is that you can certainly provide us that information.

The CHAIRMAN. Let me back up what the Senator just said. There is an institutional problem, not just in your department, but throughout all of government, not to give any more information than needs to be given, and never give all of the information you know in the first letter, hoping you never get a second letter back.

You have just got to realize, some of us are not going to give up until we get the answers we want, unless there is no answer to be given. But we find ourselves by most people in your position, and probably people below you that you do not even know about, that really do not want to give Congress the information that the constitutional responsibility of oversight requires us to ask for if we are going to earn our money, and that we receive.

Go ahead.

Senator LINCOLN. Thank you, Mr. Chairman. I agree. The Chairman and I are pretty persistent, so you can bet your bottom dollar, that second and third letter are going to come. So, we hope that you will provide us the information that is certainly necessary in the decisions we have to make.

So at this time, I am going to submit to you the same request that I have, yet to really get an answer from the Treasury Department, and hope that I will get a response. I think that is certainly, to me, one of the most positive things you can do, and indicating to me that your confirmation is something that should happen, and that would be that I can get an answer from you on those very important issues.

I also would like to ask you, if you could, to provide my office with a detailed account of the amounts and percentages of the United States' debt held by other nations, both nations and individuals, and any other domestic and foreign entities.

I hope that you will also provide me with the information collected by the Treasury Department which shows the trends in U.S. debt purchases by foreign governments.

The trends, I think, are going to be very important to us in being able to deal with some of the more tricky issues that we deal with in this committee, whether it is trade or what have you, but a better understanding of where we are going as a Nation and building the strength of this country that we feel like is necessary, and certainly deserved of the people that we represent. So, I am hoping that you can provide my office with that additional information.

I would also like to ask you a question at this time just to confirm with the administration that the U.S. has not assumed the debt owed by Iraq to other nations. Can you confirm that for me?

Mr. BITSBERGER. Senator, I cannot, but I will check on that for you.

Senator LINCOLN. All right. Well, I would definitely like to have confirmation of whether or not the United States has assumed the debt that is owed by Iraq to other nations. I would like that question answered.

I guess, lastly, I thought there was a study that existed, Mr. Chairman, but we get conflicting reports, an official estimate of the net present value of the future entitlement obligations of the U.S. Government. To my understanding there was a study that was done, and Treasury had a study, but I get conflicting responses there. So, if you could please, on the record, let me know whether or not there is a study that exists that gives an official estimate of the net value of the future entitlement obligations, and if there is not, I would make a strong suggestion that we move in that direction.

I may be one of the younger members of the U.S. Senate, but I must tell you that the volume of individuals in this country that are going to begin to put a tremendous pressure on our government programs like Medicare, Social Security, and others, if the Treasury Department does not, indeed, have that study, again, I would really encourage you all to take a look at that matter because I think it is going to be a very critically important matter, not only to the quality of life to the people that we represent, but more importantly to the solvency of our Nation and making sure that we can continue a strong Treasury and a strong livelihood in this country.

So, if you could let me know whether or not that study exists, and if not, what the intentions of the Treasury are to study those issues.

Mr. BITSBERGER. Yes, Senator. I will do so.

Senator LINCOLN. Great. Thank you so much.

Thank you, Mr. Chairman. I appreciate it.

The CHAIRMAN. Senator Baucus is going to have some questions, so we will wait for him to come back. Thank you, Senator Lincoln.

One of the questions I was going to ask you, Mr. O'Carroll, that I was going to submit in writing, is to have you comment on the several issues that you have identified, significant management issues facing the Social Security Administration, like improper payments, management of the disability process, integrity protection, critical infrastructure protection, and others.

In terms of solutions, I would like to have you identify the single most critical step that can be taken by the Social Security Administration to improve each of the management problems identified by your office, assuming that there is one common to all of them.

Mr. O'CARROLL. Well, Mr. Chairman, the Social Security Administration touches about 50 million Americans and pays out \$500 billion in benefits every year.

What we feel is that probably the most significant problem facing Social Security is making sure that the correct people get the benefits, and those people that are receiving the benefits get them as long as needed and no longer.

So in touching on each of those different ones, we are looking at the improper payment issue and making sure that the proper payments are made to the proper people. We have been working with

your staff and have been trying to determine the size of the improper payments that affect Social Security.

We are also taking a hard look in terms of the management of the disability process, which ties directly with that. One of the solutions that Social Security is looking for is the accelerated electronic disability process, which will be going electronic in the processing of disability claims.

We feel that it could have a lot of benefit to helping Social Security. But, as with anything, when we are going into an electronic age there are going to be different problems in terms of evidence that will be used in courts in the future, and that is a big issue.

Tied into that also is going into the critical infrastructure in the computer portion of it, and that touches all Americans in terms of, one, giving access to the proper information to SSA and employees, but at the same time trying to keep our information private so only the amount of information necessary about people is available out there.

Lastly, a major management issue that again ties into everything, and I have touched on it in my testimony, is the integrity of the Social Security number. We feel that it is very important, that it has an effect on homeland security, and is also a major privacy issue that affects all citizens of the United States.

The CHAIRMAN. All right. I will still send you a couple more questions for answer in writing.

[The questions appear in the appendix.]

The CHAIRMAN. Now I will turn to Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. Just a couple of more points about the tax gap, because it is getting worse, not better. You, Mr. Jones, will have a role there, too, clearly, along with Mr. George.

Just a couple of points here. Currently, the IRS estimates that the amount of taxes owed and not collected is at least \$311 billion, and it has attributed \$249 billion worth of under-reporting, \$32 billion under-payment, and non-filing, about \$30 billion.

Now, former IRS Commissioner Rossotti pointed out that the IRS really does not have enough resources to pursue identified tax debtors and cheats. Those were identified as tax debtors and cheats. There were not enough resources to pursue them.

The numbers provided in his report to the Oversight Board are as follows: 60 percent of identified tax debts are not pursued. Sixty percent of identified tax debts are not pursued. Seventy-five percent of taxpayers who did not file a return are not pursued. Again, 75 percent of taxpayers who do not file a return are not pursued.

About 80 percent of identified taxpayers that use abusive devices, that is, offshore accounts, to evade taxes, are not pursued. Many of them are identified. You know about the credit card scam that was run for a while. It is down to the number of taxpayers who used offshore credit card accounts to avoid paying taxes. I have forgotten the number, but it is astounding.

Fifty percent of identified taxpayers with incomes of \$100,000 or more and under-report taxes are not pursued. Seventy-eight percent of partnerships and similar document matching are not pursued.

It is just incredible, frankly, the number of cases not pursued, although we know that the taxpayer is not paying, for whatever reason. We can identify the taxpayers, but those cases are not being pursued. I think it is primarily because of lack of resources.

Commissioner Rossotti proposed a steady growth of staff levels, about 2 percent per year, and increased funding for modernization for several years. I cannot speak to this directly, but I think the computers are not what you saw in private business. They are behind what you saw significantly.

There are huge problems over there at the IRS. Huge. A lot of it is morale. A lot of it is the inability to transfer people, make changes. It is huge. It is a crisis. I have mentioned all this because I want you to know, if you do not already—you probably do—what an immense problem you have ahead of you, both you and Mr. George.

It has been around for a while, which indicates, clearly, how difficult it will be to solve or to make a dent in, do something about. It is particularly bothersome when we have this huge budget deficit that we are faced with. We could virtually pay off a large portion of the annual budget deficit if we could collect those dollars.

So, I just hope there is a sufficient sense of urgency in all of you to really do your job, because it ain't easy. There are so many hurdles in this town that you will be going up against with your good intentions. I do not know how to debate it any more clearly, at least in my opinion, what you have to do, and should be doing, and how much I hope you rise above the inertia that is in these agencies in this town and crack it, make a difference, for the right reasons.

Mr. Bitsberger, when will the administration have to come to Congress to ask for an increase in the debt ceiling?

Mr. BITSBERGER. Senator, publicly, the most I can professionally, with any degree of accuracy, say right now, it will be late summer, early fall.

Senator BAUCUS. And is it true that most of the reason for the increased debt ceiling is because of the increase in publicly held debt, not the trust fund debt?

Mr. BITSBERGER. They both add to the debt.

Senator BAUCUS. I know they both add, but in this case, this year it is primarily the publicly held debt that increased, not the trust fund debt increase, which is the cause for it.

Mr. BITSBERGER. Yes.

Senator BAUCUS. All right.

That is true?

Mr. BITSBERGER. I believe so. I will check the exact numbers on that. But the fiscal deficit this year was projected to be about \$520 billion.

Senator BAUCUS. All right.

So when will we hit the debt ceiling, again?

Mr. BITSBERGER. Again, Senator, with any degree of professional accuracy, the best I can say would be late summer, early fall. To expand on that a little bit, between now and the end of this calendar year we are going to have roughly \$1.2 trillion in expenditures, \$1 trillion in tax receipts. To try to get the timing of when

that hits on any day, much less week, is very difficult to publicly say.

Senator BAUCUS. Can you tell me—and I know you are not totally in charge here—can we avoid the extraordinary kinds of actions that have been taken in previous years to stretch out time by which the debt ceiling must, by statute, be increased?

Sometimes in past years, Secretaries and Treasury Secretaries and the administration have taken extraordinary procedures which stretch credibility, robbing Peter to pay Paul, and various things.

Can you just, today, pledge, as much as you possibly can, that we will not have to go through all those this time around?

Mr. BITSBERGER. Yes, Senator. If confirmed, I look forward to working with you and the committee and giving you the information when we get it.

Senator BAUCUS. When will you hit the debt ceiling if Treasury uses its extraordinary powers?

Mr. BITSBERGER. It would probably be sometime in the fall.

Senator BAUCUS. After the election?

Mr. BITSBERGER. I cannot publicly say yes or no to that, sir.

Senator BAUCUS. I know you cannot publicly. But you can just tell me. [Laughter.]

Mr. BITSBERGER. Senator, again, if confirmed, I will work with you and your staff on this issue to give you the information when we get it. The mid-session review comes out hopefully in a few weeks, and that should give us some insights into this question.

Senator BAUCUS. All right.

Again, I hope we do not have to go through this charade and we will have a more orderly process, because we are going to increase the debt. It is going to happen.

Mr. BITSBERGER. Yes, Senator.

Senator BAUCUS. So let us just do it. Come up early and get the job done properly. That is my view. That is my advice.

Mr. BITSBERGER. I agree with you, sir.

Senator BAUCUS. All right. Good. That is progress.

Before we conclude, how do each of you want to be remembered? Mr. George, when you leave this job, how do you want to be remembered?

Mr. GEORGE. As a man who had great integrity, who had complete appreciation of the immense challenge and responsibility of the organization, and who hopefully left the organization in a better position than he found it when he first arrived.

Senator BAUCUS. Mr. O'Carroll?

Mr. O'CARROLL. Senator, I think that the Social Security Administration is one that touches everyone from birth until death, and it takes care of those of us who are the most needy at times when it is most needed. What I am hoping to do is to make sure that those benefits and assurances of government are there for all Americans into the future and that we make this a better place.

Senator BAUCUS. Yes. I think Social Security is one of the few major government programs in which there is a lot of trust. The American people understand it. They know it is there, and there is deep trust in the Social Security system. Anything that shakes that is certainly not very good all the way around. I appreciate that.

Mr. Bitsberger?

Mr. BITSBERGER. I guess, first, to be a great father and husband. Also, I would like to be known as really to do the most I can to serve the American taxpayer and just lowering the cost of financing the deficits.

Senator BAUCUS. All right.

Mr. Jones?

Mr. JONES. Senator Baucus, I would like to be known as an individual who has really made a contribution to identifying the root causes of some of the phenomena that you have described, knowing that there are tax dollars out there that are not being collected, and to understanding what the solutions are, and as a person who has had an active role in implementing changes that will close that gap. I take this seriously and hope to be able to make a difference.

Senator BAUCUS. I appreciate that.

Mr. Chairman, we have nomination hearings, and these are really good. It just occurred to me, we ought to have departure hearings to get an assessment of how things worked out. [Laughter.]

The CHAIRMAN. Yes. Compared to the original record.

Senator BAUCUS. Exactly.

The CHAIRMAN. Well, listen, we congratulate each of you and hope that all the requirements that the Senate needs to get you confirmed can be done very quickly, and that you do a very good job in the position you have been appointed to. That is how we approach your nomination.

Thank you all very much.

Senator BAUCUS. Thank you, Mr. Chairman.

The CHAIRMAN. The hearing is adjourned.

[Whereupon, at 11:24 a.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD



Committee On Finance

Max Baucus, Ranking Member

NEWS RELEASE

<http://finance.senate.gov>

For Immediate Release
Wednesday, July 07, 2004

Contact: Russ Sullivan
202-224-4515

Statement of U.S. Senator Max Baucus Nomination Hearing of Timothy Bitsberger, J. Russell George, Paul Jones, and Patrick O'Carroll

"This morning, we meet to consider four nominees: Timothy Bitsberger, for Assistant Secretary for Financial Markets, Patrick O'Carroll for Social Security Administration Inspector General, J. Russell George for Treasury Inspector General for Tax Administration, and Paul Jones for the IRS Oversight Board.

These are important positions. They are responsible for ensuring the security and efficient management of some of our government's most important programs including the Financial Markets, the Social Security Program, and the voluntary tax system.

The Assistant Secretary for Financial Markets is responsible for the development and sale of U.S. Government securities that are traded in financial markets. He or she also advises the Treasury Secretary on a broad array of matters regarding Federal, state, and local finance. In addition, he or she leads the Treasury's participation in the financing of the District of Columbia. The Assistant Secretary also advises on Federal Government credit policies, and lending and privatizing activities. And the Assistant Secretary serves as the senior member of the Treasury Financing Group and the President's Working Group on financial markets.

This is a full plate. Moreover, I am going to ask and I think that Mr. Bitsberger is going to tell us about our need to raise the debt subject to limit soon. Last year, and the year before that, avoiding default by the U.S. Treasury was extremely stressful for the Treasury Department. Mr. Bitsberger may have quite a task ahead of him.

The Social Security Administration plays an essential role getting Social Security benefits to seniors, widows and widowers, children who have lost a parent, and people with disabilities. Making sure that the Social Security program runs properly is no small task. But it can mean the difference between life and death for a Social Security recipient. It can mean the difference between eating or not eating – between taking needed prescription drugs or not taking them. It's that important.

The Social Security Inspector General plays an essential role in making sure that Social Security gets the job done right. The Social Security Inspector General protects the Social Security system against waste, fraud, and abuse by conducting independent and objective audits, evaluations, and investigations. The documents and reports that the Inspector General provides have been very helpful to me. And I hope to learn more today about the projects that the Inspector General has planned. Mr. O'Carroll has a strong record of public service and an extensive background in law enforcement. I am confident that he will do a fine job as the Social Security Inspector General.

The Treasury Inspector General for Tax Administration -- known as TIGTA -- is also an important position. Congress established the TIGTA position to oversee the IRS and tax administration functions by others in the Executive Branch. The office includes more than 900 employees.

When Congress designed the Treasury Inspector General for Tax Administration office in 1998, we maintained the requirements of all other Inspector Generals -- that the nominee should be appointed without regard to political affiliation and solely on the basis of such appointee's integrity and ability. Congress also recognized the enormity of the job of overseeing tax administration. So, we required that the Treasury Inspector General for Tax Administration have experience running a large organization.

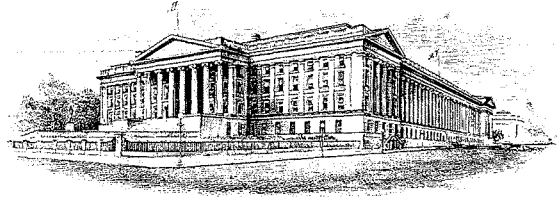
The next Inspector General for Tax Administration faces a daunting task. The IRS tells us there is an annual tax gap of more than \$300 billion every year. That's \$300 billion in taxes that are owed, but not collected, every year. The Treasury Inspector General for Tax Administration will be charged with identifying where the IRS's collection efforts have fallen short and making recommendations as to how to ensure a more efficient and effective IRS.

Needless to say, experience in tax policy and tax administration is important. I understand that Mr. George does not have this type of experience. I urge him, therefore, to pay heed to the many capable career employees in the Office of the TIGTA. While I have concerns about Mr. George's nomination, I have an open mind about his ability to succeed in this job. I look forward to hearing from Mr. George about how he plans to take the hard steps necessary to help reform the IRS.

Mr. George, this may take butting some heads. And it will not always make you popular with the Administration, the IRS or the political branches -- but it will make you effective. The integrity of our voluntary tax system depends on your diligence.

Finally, we have a nominee to the IRS oversight board -- Paul Jones. The IRS Oversight Board serves a very important function. The Board oversees the Service in its administration, execution, and application of the tax laws.

Mr. Jones comes to the Board with experience in the information technology arena. Mr. Jones is coming into a position that is critical to our voluntary tax system. The IRS has spent billions -- that is, billions -- of dollars trying to modernize their 1960s technology. Congress is frustrated with the IRS's lack of progress. And the American taxpayer deserves to see improved service. I urge Mr. Jones take charge of this area. No more excuses. It is time for us to see some real results."



**DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS**

**FOR IMMEDIATE RELEASE
July 7, 2004**

**CONTACT: Anne Womack Kolton
202/622-2960**

**Statement of Timothy Bitsberger,
Nominee to Serve as Assistant Secretary for Financial Markets,
Before the Senate Committee on Finance**

Chairman Grassley, Ranking Member Baucus and Members of the Committee on Finance, thank you for the opportunity to appear before you and your committee today.

I am honored to be President Bush's nominee to be Assistant Secretary of the Treasury for Financial Markets and am grateful for Secretary's Snow's confidence in me. If confirmed, I look forward to the opportunity to work in this role with Secretary Snow, the Treasury staff, others in the administration, and the Congress on the variety of issues pertinent to the Office of Financial Markets.

For the past 2-½ years I have had the privilege of serving as the Deputy Assistant Secretary of the Treasury for Federal Finance where my primary responsibility has been managing the federal debt. We have made great strides in our objective of achieving the lowest cost of financing, over time, for the American taxpayer. By improving the transparency of our decision-making, we have reduced investor uncertainty. By expanding our offering of securities beyond the traditional mix, we have taken significant steps to expand and broaden our investor base. By improving our computer systems, we have created a more efficient and accessible electronic marketplace, allowing any investor the opportunity to readily participate in our auctions. Though difficult to precisely quantify, these efforts have helped to lower the cost of financing the debt.

The past few years have been an especially demanding time for public service and there is no reason to think this will change in the future. If confirmed, I look forward to the opportunity to work with this committee on formulating policy and legislation in the areas of public debt management, financial markets, government financial management services, and federal lending.

-more-

I have now worked for approximately twenty years in the capital markets, primarily in the credit markets. I first started trading US Treasury's in 1986 and have witnessed profound changes not only in the US Treasury market but also in all the financial markets. Though the bulk of my career in the private sector was spent trading and investing, I have had exposure to most financial market issues. I believe this gives me a unique perspective on the give-and-take required between the public and private sectors.

Thank you again Mr. Chairman for the privilege to appear before this committee. If confirmed, I can promise you I will work closely and with an open mind with you, members of this Committee and Committee Staff.

SENATE FINANCE COMMITTEE
STATEMENT OF INFORMATION REQUESTED OF NOMINEE

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)
Timothy S. Bitsberger
2. Position to which nominated:
Assistant Secretary for Financial Markets
3. Date of nomination:
May 11, 2004
4. Address: (List current residence, office, and mailing addresses.)
 Residence & 2238 47th Street NW
 Mailing address: Washington DC 20007

 Office: Department of the Treasury
 1500 Pennsylvania Avenue
 Washington, DC 20220
5. Date and place of birth:
October 23, 1959
Fukuoka, Japan
6. Marital status: (Include maiden name of wife or husband's name.)
Married
Cheryl Crispen
7. Names and ages of children:
Kristen S. Bitsberger (age four on May 17)
Timothy S. Bitsberger (age four on May 17)
8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)

School	Dates Attended	Graduation Date	Degree
Hotchkiss School	1973-1977	1977	HS Diploma
Yale University	1977-1981	1981	BA Economics
Harvard Business School	1983-1985	1985	MBA

9. Employment record: (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)
 Department of the Treasury. Deputy Assistant Secretary for Federal Finance; Washington, DC; October 2001-present
 Salomon Smith Barney. Senior VP –Investments; New York, NY; September 1999-October 2001
 J.F. Lehman & Company. Consultant. Arlington, VA. July and August 1999
 CRT/NationsBank/Bank of America (listed this way due to mergers). Senior Trading Manager and VP; bond trading operation; New York, NY; June 1989-June 1999.
 Drexel Burnham Lambert. VP; bond trading; New York, NY; 1985-1989
10. Government experience: (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)
 None.
11. Business relationships: (List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.)
 None.
12. Memberships: (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)
 The Country Club. Brookline, MA
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.
 - 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.
 Bush/Cheney 2004: \$2000
 Bush/Cheney 2000: \$500 (wife)
 Mark Sanford, Governor, South Carolina, 2000: \$200
 Mark Sanford, US House of Representatives, 1996/8: \$200
14. Honors and Awards: (List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals, and any other special recognitions for outstanding service or achievement.)

None.

15. Published writings: (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)
None.

16. Speeches: (List all formal speeches you have delivered during the past five years which are on topics relevant to the position for which you have been nominated. Provide the Committee with two copies of each formal speech.)
Attachment A

17. Qualifications: (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)
Since graduation, my entire 16-year career in the private sector career has focused on financial markets. The bulk of my career has been spent trading US Treasury securities. This has given me good understanding of the role of Treasury securities in the marketplace, both as a financing vehicle for the government as well as a hedge for other financial instruments.

During my years on the "street", I came to fully appreciate the regulatory framework that has allowed our financial system to become unparalleled. I believe I have gained understanding as to how our financial markets work in a transactional, regulatory, and evolving marketplace.

Since October 2001 I have served as the Deputy Assistant Secretary for Financial Markets, and my primary responsibility has been to finance the government. During this time I have gained a good understanding of Treasury's institutional structure, overseen regulatory developments in financial markets, and participated in broad economic policy debates.

In this role as DAS, I have also gained invaluable insight about the duties and responsibilities of the office for the Assistant Secretary for Financial Markets. If confirmed, I believe I could capably and competently carry out these duties.

B. FUTURE EMPLOYMENT RELATIONSHIPS

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

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.

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.
I am in the process of divesting all holdings of banking and financial institutions.
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.
None.
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.
None.
4. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Provide the Committee with two copies of any trust or other agreements.)
I do not foresee any potential conflicts of interest. Should any potential conflicts arise, I will consult with Treasury Ethics officials.
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.
Provided
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.

NA.

D. LEGAL AND OTHER 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 a 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.
No.
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.
5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.
None

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

Senator Baucus

Questions for the Record for Mr. Bitsberger

1. In the absence of any extraordinary measures, when will the debt subject to statutory limit reach the limit? If there is uncertainty as to this date, please provide a range of dates.
2. If Treasury uses all of the extraordinary measures available to it, when will the debt limit have to be raised? Will this date be reached before or after Election Day in November? If there is uncertainty as to the dates in the answers to these questions, please provide a range of dates.

Answer

1. At this point in time, it is difficult to determine the exact date the debt limit will be reached. Consequently, the best possible range that can be given for reaching the debt limit is late summer or early fall. It appears very likely the limit will be reached sometime in late-September or October, with the most likely date being early October. Treasury may be in a better position to narrow this range after completion of the mid-session review.
2. Again, the exact timing is hard to predict at this early date. Depending upon the exact date the statutory debt limit is reached, the extraordinary measures may take us anywhere from early-October to late-November. So while there is a chance the date will be reached after Election Day, we cannot predict this with absolute certainty in early July. It is for this reason that Secretary Snow has publicly urged Congress to increase the debt limit as soon as possible, even before recessing in August.

RESPONSES TO QUESTIONS FROM SENATOR LINCOLN

Questions 1 & 2. Please provide my office with a detailed account of the amounts and percentages of United States debt held by other nations, individuals, and any other domestic and foreign entities. Please also provide me with information collected by the Treasury Department which shows trends in United States debt purchases by foreign governments.

I would also at this time like to confirm with the Administration that the United States has not assumed the debt owed by Iraq to other nations.

Thank you for the opportunity to respond to your questions regarding ownership of U.S. Treasury securities. The data covering foreign and domestic ownership of Treasury securities comes from a variety of sources, including surveys and estimates at the Treasury Department and the Federal Reserve Board of Governors. Some of the specific data requested does not exist, such as the breakdown between foreign banking holdings, insurance company holdings, etc. Nonetheless, the data which is available and is presented below is extensive and informative and is the same data upon which I rely. I am confident it will satisfy the general nature of your request.

First, I would like to give a brief description of the Treasury market.

The secondary market for U.S. Treasury securities is the most liquid market for government debt securities in the world. Treasury securities are considered to be low-risk investments because they are backed by the full faith and credit of the U.S. Government. The transparency and liquidity in the Treasury market and safe-haven status of Treasury securities attract a wide spectrum of both domestic and foreign investors. In order to facilitate continued liquid trading in U.S. Treasuries, the Treasury Department encourages broad participation in the market. This broad participation enhances trading volumes, market depth and liquidity, which in turn enables the U.S. government to borrow at a lower cost over time (investors refer to this as a *liquidity premium*), and these savings are passed onto the U.S. taxpayer. More than \$500 billion in Treasury securities trades each and every day, equaling over \$100 trillion annually. For comparison, the daily average trading volume on the New York Stock Exchange is about \$50 billion.

Investors can purchase Treasury securities in two basic ways: either at auction (primary market) directly from the Treasury Department or in the secondary market through a financial intermediary, such as a bank or brokerage firm. At auction, the Treasury Department treats all investors exactly the same way. The largest mutual fund, bank, or foreign central bank purchases securities from the Treasury Department the same way as an individual investor. The same is true in the secondary market. Many analysts, academics, as well as investors believe Treasury securities trade at a "premium" in the market because of this transparency. I bring this up only to point out that foreign investors (including central banks) buy the same securities through the same channels as domestic investors, large or small.

The Treasury Department views foreign ownership of Treasury securities as a positive development. The Treasury Department is pleased when any qualified, legitimate investor purchases Treasury securities. High demand for Treasury securities, whether that demand originates domestically or internationally, portends lower borrowing costs and represents a vote of confidence in the financial strength of the United States. The U.S. Treasury market is unique when one considers liquidity, transparency, credit-worthiness and safety.

That being said, I believe the Treasury Department should continue to expand its understanding of the dynamics of the U.S. Treasury market, including foreign ownership. Over the past year, department officials have had the opportunity to speak overseas and meet international investors to better gauge their interest and motivation in purchasing U.S. Treasury debt.

Before delving into a discussion of the data and some of the recent trends contained therein, I would like to provide some background regarding the data. Many of the surveys and estimates used to compile the ownership data are subject to estimation errors or potential misinterpretation for some of the following reasons.

First, the size and scope of the U.S. Treasury market does not allow for realistic data collection. The U.S. Treasury market serves as a benchmark and hedge for many global bond markets. Due to large daily volumes of trading activity in the Treasury market, 24 hours a day, Treasury securities are constantly changing hands and thus, tracking ownership on a daily basis is extremely difficult. Instead, benchmark surveys of foreign ownership are done periodically (benchmark surveys are performed once a year – they used to be done every five years) and are used to estimate ownership. Between the annual benchmark surveys, the Treasury Department uses other monthly aggregate transaction data to estimate changes in Treasury ownership from the previous benchmark. This monthly transaction data represent a subset of the data collected in the annual benchmark surveys and are used as a proxy to estimate changes in ownership.

When analyzing ownership data one must be aware that many final owners of Treasury securities hold their securities in custodial accounts. These custodian banks are often located in a different country than the final owner of the Treasury security. For example, many Asian investors have custodial accounts in the United Kingdom (UK), which show up in the data as UK holdings. In addition, other offshore banking centers, such as the Cayman Islands in the Caribbean, hold Treasury securities for non-residents. In addition, the monthly transactions data also are skewed toward financial centers because they record the location of the foreign counterparty to each trade, not the actual foreign owner of the securities.

Another complication involved in estimating ownership of Treasury securities is the fact that the available data comes from a variety of government and quasi-government entities. The result is that some entities aggregate or categorize ownership differently.

In addition, the laws authorizing the collection of some of the information you requested severely restricts the dissemination of that information.

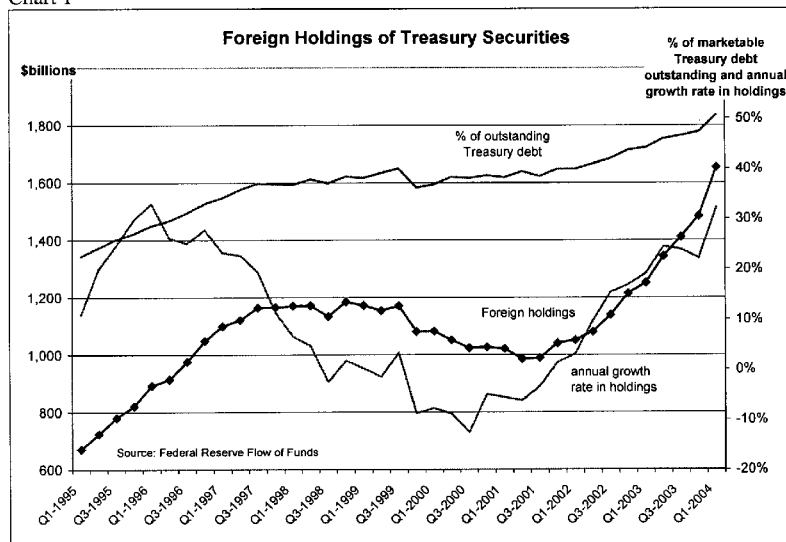
The Treasury Department does record who participates in our auctions. This is market-sensitive information I would be happy to discuss with you, but it cannot be included in a public record.

Given these caveats, I hope the following information highlighting the ownership data and some relevant trends is helpful. I would be happy to meet with you to discuss this issue as well as the overall state of the U.S. Treasury market in greater detail.

Details on foreign ownership of U.S. Treasury securities:

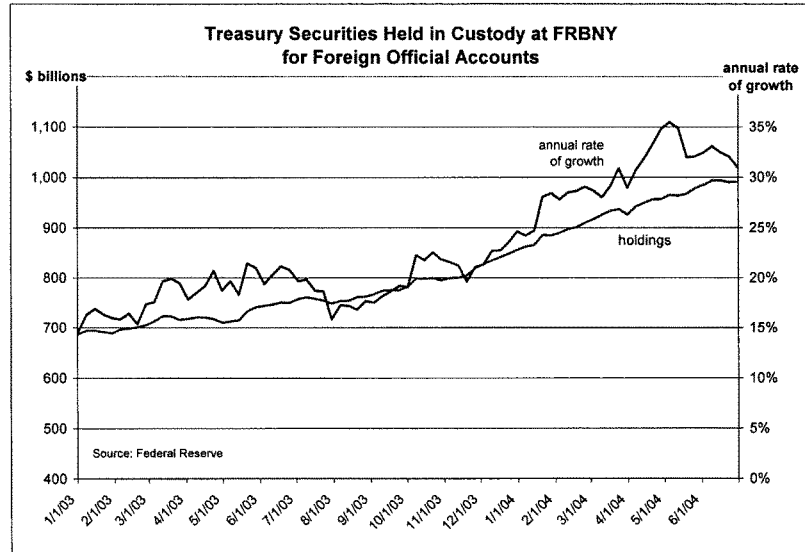
Foreign investors held \$1.653 trillion of U.S. Treasury debt as of March 31, 2004. This is 50.6 percent of marketable Treasury debt outstanding. Foreign holdings (including private and official holdings) have increased by \$602 billion since the beginning of 2002. The annual growth rate in these holdings currently exceeds 30 percent, comparable to the growth rate in the mid-1990s.

Chart 1



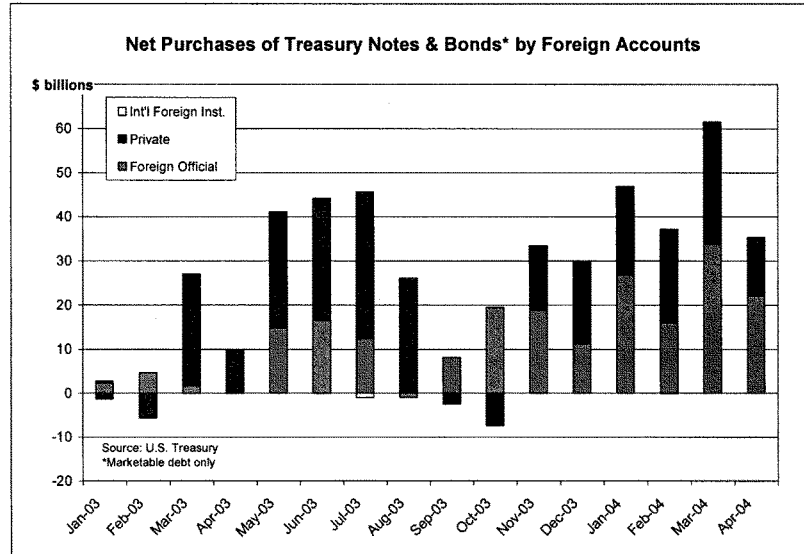
Marketable Treasury securities held in custody for foreign official and international accounts at the Federal Reserve Bank of New York totaled \$991.5 billion as of June 30, 2004. The annual growth rate in these custody holdings of Treasury debt has increased from 15 percent in January 2003 to 31 percent currently.

Chart 2



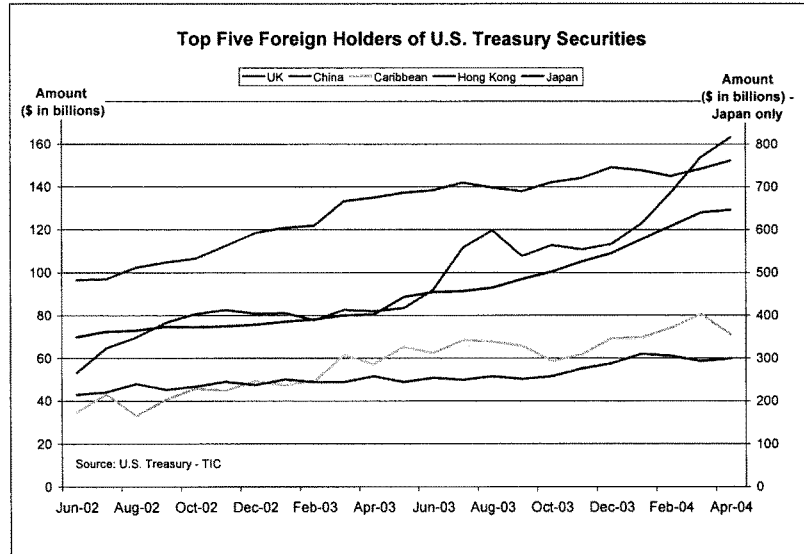
Net purchases of Treasury notes and bonds by foreign accounts in 2004 have averaged \$45 billion monthly through April. On average over the past six months, net purchases have been divided almost equally between private and official foreign accounts.

Chart 3



The five largest foreign holders of U.S. Treasury debt as of April 30, 2004 were (in order) Japan, the United Kingdom, mainland China, Caribbean banking centers and Hong Kong. Their estimated holdings, respectively, were \$646 billion, \$163 billion, \$152 billion, \$71 billion and \$60 billion.

Chart 4



The table below shows the annual growth rate (April 2003 – April 2004) in Treasury holdings for each of the five largest foreign accounts and the percent of total foreign holdings for each country/region as of April 30, 2004. However, as discussed earlier, the estimates for the financial centers such as the UK and Caribbean are biased upward, and there are sometimes significant changes in those estimates when data from the latest benchmark survey are incorporated.

Country	Annual Growth Rate (%)	% of Total Foreign Holdings
Japan	61	37
UK	99	9
Mainland China	13	9
Caribbean	24	4
Hong Kong	16	3

Japan's holdings (official and private) of Treasury securities are significantly larger than any other foreign investor and have increased over the past year. During this

period, Japanese officials intervened heavily in the currency markets, selling yen and buying U.S. dollars, and invested the U.S. dollars primarily in the Treasury market.

Chart 5

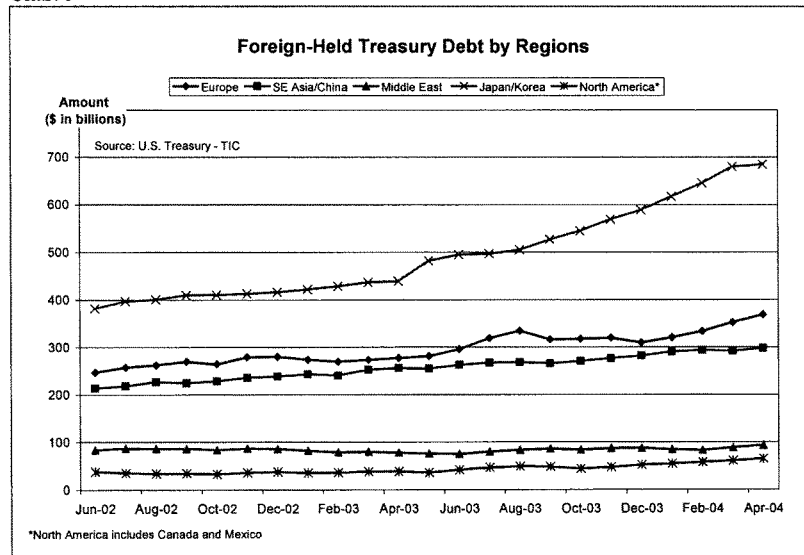


Chart 6

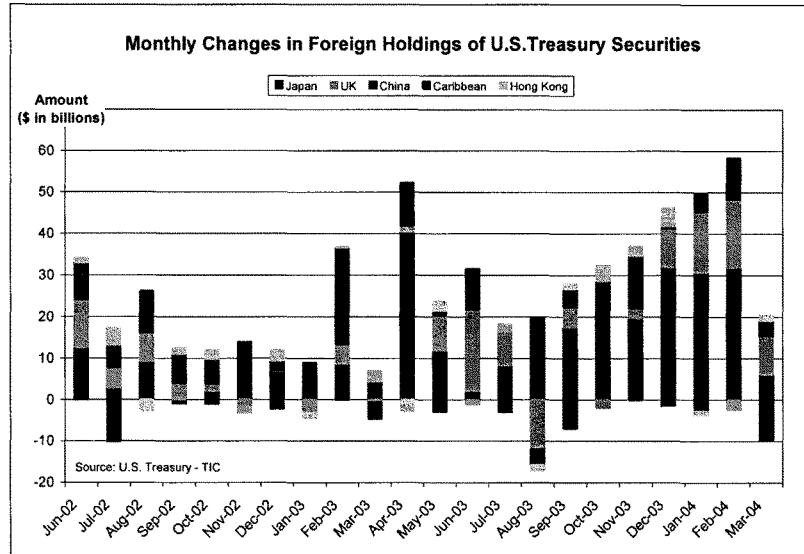
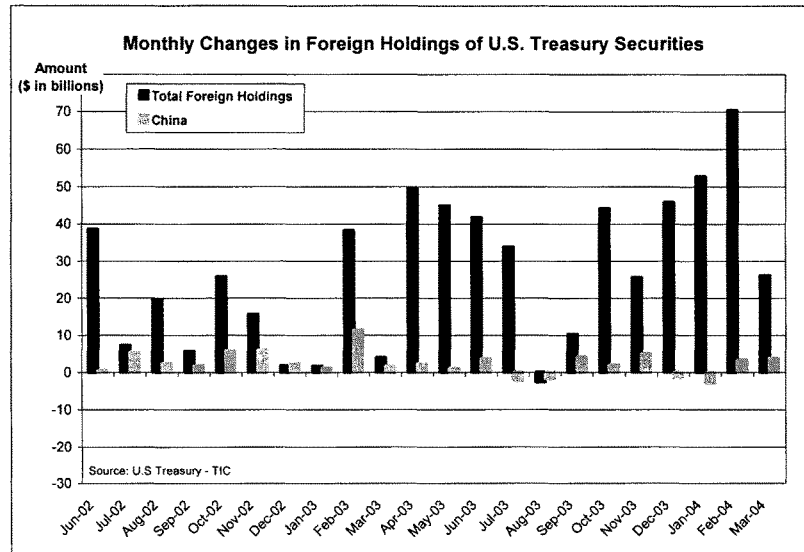


Chart 7

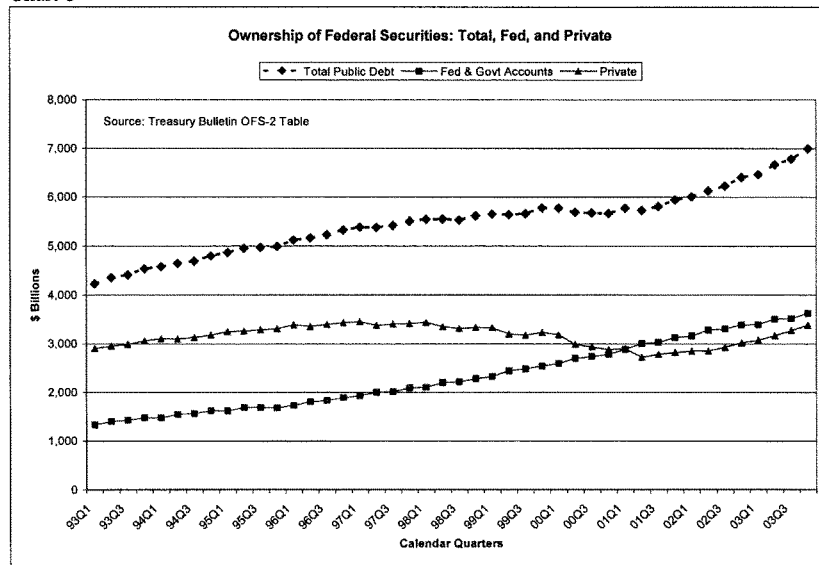


Details on domestic ownership of U.S. Treasury securities:

Total public debt as of December 31, 2003 has risen by \$2.767 trillion, or 65.4 percent, to \$6.998 trillion since 1993. This represents a 4.7 percent compounded annual rate of growth.

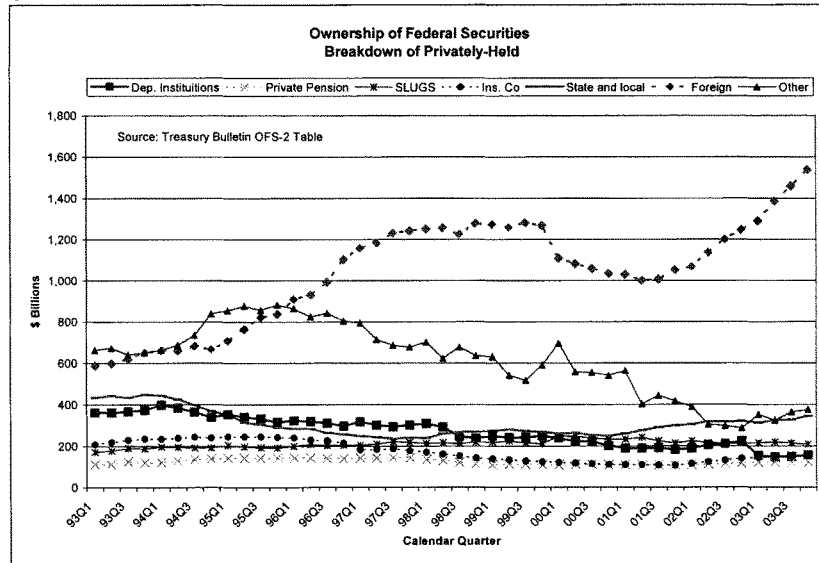
Total Federal Reserve and government account ownership has risen by \$2.291 trillion, or 172.5 percent, to \$3.620 trillion over the same time period. This represents a 9.5 percent compounded annual rate of growth since 1993. The increase in the Federal Reserve ownership is largely related to increases in the monetary aggregates (largely currency in circulation). Government Accounts (i.e. the "Trust Funds") represent the bulk of this increase, having grown \$1.809 trillion, or 158 percent over the time period, to a level of \$2.953 trillion. This represents a 9.0 percent compounded annual rate of growth.

Chart 8



Total privately held Treasury debt rose \$476 billion, or 16.4 percent, to \$3.377 trillion over the same time period. This represents a 1.4 percent compounded annual rate of growth since 1993. Private domestic ownership of Treasuries is often driven by returns available on other financial and real assets, i.e., equities, corporate bonds, real estate, etc.

Chart 9



Sen. Lincoln

Question #3

Lastly, I would like to have an official estimate of the net present value of the future entitlement obligations of the United States Government. Does such a study exist? If the Treasury Department does not indeed have a study on this matter they should start to study the matter wouldn't you agree?

Senator, to answer your question, the following information was provided to me by the Treasury Department's Office of Economic Policy:

The net present value obligations (outlays less dedicated revenues) of the US Government projected over a 75-year horizon for Social Security and Medicare Part A (Hospital Insurance) programs are \$5.2 and \$8.5 trillion, respectively, according to the 2004 Trustees Reports; subtraction of \$1.5 and \$0.3 trillion for the current values of the Social Security and Medicare Part A Trust Funds produces net unfunded obligations of \$3.7 and \$8.2 trillion, respectively. Projected over the infinite horizon, the net unfunded present values are \$10.4 trillion for Social Security and \$21.8 trillion for Medicare Part A. The present values of projected outlays for Parts B (Physician and Other Services) and D (Prescription Drug) of Medicare are \$15.3 and \$10.8 trillion, respectively, calculated over 75 years, and \$31.1 and \$21.9 trillion calculated over the infinite horizon, according to the 2004 Medicare Trustees Report. Because these Parts are financed by general revenue and state transfers (present values of \$11.4 and \$23.2 trillion, calculated over 75-year and infinite horizons, respectively, for Part B, and \$9.0 and \$18.6 trillion, calculated over the two horizons, for Part D) and beneficiary premiums (present values of \$3.9 and \$7.9 trillion, calculated over the two horizons, respectively, for Part B and \$1.8 and \$3.6 trillion, calculated over the two horizons, respectively, for Part D), the net obligations of these Parts, from a Trust Fund perspective, are, by definition, zero. These numbers do not include present value obligations for other entitlement programs such as Medicaid; long-range projections are not currently calculated for these programs.

This information can be found in the 2004 Social Security and Medicare Trustees Reports.

10:54 FROM:

TO: 202 228 0554

P.

**Statement of Senator Bob Dole
Senate Finance Committee
July 7, 2004**

Chairman Grassley, Ranking Member Baucus, and members of the Committee:

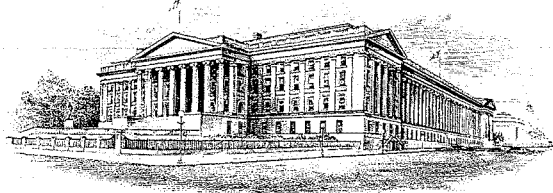
It is a pleasure to speak on behalf of Russell George, President Bush's nominee to be Treasury Inspector General for Tax Administration.

I first met Russell when he was a teenager interning in my Senate office. He was a wide-eyed kid from New York who was interested in government. He was hired to serve on my staff while attending college. I do not remember everything he did way back then. Whatever it was, I'm sure he did it well. After leaving my office, Russell went off to a little known law school up in Cambridge called Harvard, which my wife Elizabeth tells me is a pretty good school.

Russell George has demonstrated a life committed to serving his nation – as a local prosecutor, an attorney at OMB, a member of the White House staff. Then back to Capitol Hill working with Members of Congress such as Steve Horn, before being tapped to serve as the Inspector General of the Corporation for National and Community Service.

The position of Treasury Inspector General for Tax Administration would be his biggest challenge to date. I have great confidence that, if confirmed, Russell George will continue to serve his nation to the best of his ability. That fact that President Bush nominated him for such a challenging assignment is testimony in itself to Russell's abilities and love of country.

It is my pleasure to wholeheartedly recommend him to you and urge the swift approval of his nomination by this committee and the Senate.



**DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS**

For Immediate Release
July 7, 2004

Contact: Tara Bradshaw
(202) 622-2014

**STATEMENT OF J. RUSSELL GEORGE
BEFORE THE COMMITTEE ON FINANCE
UNITED STATES SENATE**

Chairman Grassley, Senator Baucus, and Members of the Committee on Finance, thank you for the opportunity to provide testimony today.

It is an honor to be here as the President's nominee for the position of Treasury Inspector General for Tax Administration. I am truly grateful to the President for the trust placed in me by his appointment.

I would also like to thank Senator Sununu for his gracious introduction. It was a pleasure working with him during his tenure in the U.S. House of Representatives.

Mr. Chairman, Senator Baucus, I have served as an inspector general for nearly two years. Prior to that, I had the opportunity to assist the chairman of the subcommittee in the House of Representatives with responsibility for overseeing the implementation of the Inspector General Act. For over seven years in that position, I worked with inspectors general as they performed their roles. I observed firsthand how the activities of inspectors general can benefit agencies, Congress, and the nation. From that experience, as well as my current position, I have come to the following conclusion: An inspector general is not another general counsel of an organization. The inspector general's function is to identify waste, fraud and abuse and advise both the agency head as well as Congress on his or her findings with the goal of stemming inappropriate activity and helping to avoid its recurrence.

Given the very important role the Internal Revenue Service provides to the nation, I am very much aware of the sensitive nature of the position for which I am being considered. I assure you that, if confirmed, the Office of Inspector General will be zealous in its oversight of the agency.

In 1995, when I joined then Chairman Stephen Horn as the staff director of the House of Representatives' Government Management subcommittee, one of the first charges I received from him was to examine issues pertaining to the Internal Revenue Service, especially those

identified by the General Accounting Office as being at high risk of waste and abuse. Among the first issues we reviewed were: (1) what was then referred to as the tax systems modernization initiative and is currently referred to as business systems modernization; (2) what is now referred to as the "tax gap" and other compliance issues; and (3) the issue of erroneous and improper payments.

As you know these very same issues which we reviewed nearly a decade ago still persist and in some cases have been exacerbated. They will be among the first areas that I will focus on if confirmed.

In addition, I had the opportunity to assist with the House of Representatives' consideration of the IRS Reform and Restructuring Act, which as you know established the position of Treasury Inspector General for Tax Administration. Working with Representative Portman and his staff on this legislation enhanced my understanding of the significant role and responsibility of the Inspector General for Tax Administration.

Mr. Chairman, once again, thank you for the opportunity to appear here today. I have devoted most of my career to public service. If afforded the opportunity to assume the position to which I have been nominated, I will do my level best to ensure that the Office of Treasury Inspector General for Tax Administration continues to assist the Secretary of the Treasury and the Commissioner of the Internal Revenue Service in their efforts to ensure that the IRS serves the nation in a more efficient, effective and responsive manner.

**RESPONSE TO THE SENATE COMMITTEE ON FINANCE'S
REQUEST FOR INFORMATION FROM NOMINEE**

A. BIOGRAPHICAL INFORMATION

1. Name: (Including any former names used.)
JOEY RUSSELL GEORGE (Joseph was used from 1978 – 1981)
2. Position to which nominated:
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION
3. Date of Nomination:
November 19, 2003
4. Address: (List current residence, office, and mailing addresses.)

Home/Mailing:	220 South West Street Alexandria, Virginia 22314
Office:	Office of Inspector General Corporation for National and Community Service 1201 New York Avenue, NW., Suite 830 Washington, D.C. 20525
5. Date and place of birth:
October 8, 1963, in Brooklyn, New York
6. Marital Status: (Include maiden name of wife or husband's name.)
Single
7. Names and ages of children:
I do not have children.

8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)

Harvard Law School – 1985 to 1988. J.D. received June 1988

Howard University – 1981 to 1985. B.A. received May 1985

Brooklyn Technical High School – 1977 to 1981. Diploma received in June 1981

9. Employment record: (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)

Inspector General, Corporation for National and Community Service, Washington, D.C., September 2002 to present.

Subcommittee Staff Director and Chief Counsel, Committee on Government Reform's Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations (formerly entitled the Subcommittee on Government Management, Information and Technology), U.S. House of Representatives, Washington, D.C., January 1995 to August 2002.

Associate, Kramer, Levin, Naftalis, Nessen, Kamin & Frankel, New York, N.Y., February 1993 to December 1994.

Associate Director for Policy, The White House, Washington, D.C., July 1991 to January 1993.

Assistant General Counsel, The White House Office of Management and Budget, Washington, D.C., January 1990 to July 1991.

Prosecutor, Queens County District Attorney's Office, Kew Gardens, N.Y., August 1988 to January 1990.

Summer Associate, Bankers Trust Company, New York, N.Y., August 1987 to September 1987.

Summer Associate, Wiley, Rein & Fielding, Washington, D.C., July 1987 to August 1987.

Summer Associate, Donovan, Leisure, Newton & Irvine, New York, N.Y., June 1987 to July 1987.

Summer Associate, Bankers Trust Company, New York, N.Y., August 1986 to September 1986.

**Summer Associate, Epstein, Becker, Borsody & Green, New York, N.Y.,
June 1986 to August 1986.**

**Legal Associate, Bankers Trust Company, New York, N.Y., May 1985 to
August 1985.**

10. Government Experience: (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)

None.

11. Business Relationships: (List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, or educational or other institution.)

**Undergraduate Student Trustee, Board of Trustees, Howard University,
Washington, D.C., July 1984 to July 1985.**

12. Memberships: (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)

Bar of the United States Supreme Court.

**Bar of the United States District Court, Southern and Eastern Districts of
New York.**

Bar of the State of New York.

Bar of the State of Connecticut.

The Association of the Bar of the City of New York.

American Bar Association, Vice Chairman, Administrative Law Section.

Ripon Society, National Vice President.

Ripon Educational Fund, President.

Harvard Law School Chapter, Ripon Society, President.

Big Brother's Program.

City Harvest Food Bank, Board of Advisors.

Rotary Club of Washington, D.C.

Southern Poverty Law Center, Leadership Committee.

National Association for the Advancement of Colored People.

National Rifle Association.

Sierra Club.

Harvard Club of the City of New York.

Harvard Club of Washington, D.C.

University Club of Washington, D.C., Vice Chair, Membership Committee.

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.

**Republican National Committee.
Alexandria Republican City Committee – various activities.
Victory 2000 – Public speaking and drafted article.
Elizabeth Dole for President – Finance Committee.
Bob Dole for President – Transition Team Executive Committee and public speaker.
Giuliani for Mayor – vote integrity.
New York City Republican Party.
New York State Republican Party.
Republican Party of the State of Virginia.
Cleveland for Mayor – various activities.**

- c. Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the last 10 years.

According to the records available to me, and to the best of my recollection, the following is a record of the contributions I have made over the last ten years:

**Republican National Committee – \$180
Republican National Committee Victory 2000 – \$95
Friends of Jost – \$100
Bush for President 2000 – \$900
Bush Transition – Not Available
Bush-Cheney Recount Fund – Not Available
Elizabeth Dole for Senate – \$75
Elizabeth Dole for President – \$1,000
Bob Dole for President – \$1,000
Cleveland for City Council – \$200
Cleveland for Mayor – \$350
Stoker for Congress – \$1,850
McIntosh for Governor – \$250
Gilmore for Governor – Not Available
Pataki for Governor – Not Available
Friends of Giuliani Exploratory Committee – \$500
Adam Clayton Powell for City Council – Not Available**

New York State Republican Party – Not Available
New York City Republican Party – Not Available
Jerry Moran for Congress – Not Available
Allen for Governor – Not Available
Friends of Allen – Not Available
Rogers for Congress – 150
McVay for City Council – \$50
John Hines for City Council – Not Available

14. Honors and Awards: (List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals, and any other special recognitions for outstanding service or achievement.)

Phi Beta Kappa
Pi Sigma Alpha (Political Science Honor Society)
Phi Alpha Theta (History International Honor Society)
Dean's List Howard University
Hammer Award (For work on the Y2K issue)
Howard University Citation of Achievement

15. Published writings: (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)

"Why Blacks Should Vote for Bush," published on a web site directed towards African-American professionals, October 2000.

16. Speeches: (List all formal speeches you have delivered during the past five years which are on topics relevant to the position for which you have been nominated. Provide the Committee with two copies of each formal speech.)

I have spoken frequently on the role of the Inspector General; however, my remarks were delivered without the use of a formal statement.

17. Qualifications: (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

As I currently serve as an Inspector General, I have a keen understanding of the role and responsibility of the holder of the position. In addition to being a watchdog, the Inspector General has to have an appreciation of the mission of the organization to which he or she belongs. My experience thus far demonstrates my understanding of these dualities. The purpose of the Inspector General is not to interfere with the day-to-day operations of the Department. Its purpose is to ensure that if an allegation of waste, fraud or abuse is brought to the office's attention, appropriate action is taken to review the merits of the allegation and to ensure that the office responds accordingly.

As the Inspector General of the Corporation for National and Community Service, I have directed investigations of important matters affecting the agency, including its personnel policies and financial management practices. In regards to the latter, serious violations of accounting laws and regulations were revealed and examined by the office. In addition to identifying these issues, my office recommended changes in procedures that have been implemented by the agency.

Moreover, I served as the Staff Director and Chief Counsel of the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations. That subcommittee was responsible for overseeing the implementation of the Inspector General Act. In that capacity, I worked closely with the staffs of the authors of the Restructuring and Reform Act, as well as with the relevant staffs of the appropriation and authorization committees during the creation of the office of the Treasury Inspector General for Tax Administration (TIGTA). During the deliberations on this aspect of the legislation, I was involved in the drafting of the duties of the TIGTA. Given that experience, I know what the responsibilities of the incumbent of that position entails and sincerely believe I possess the wherewithal to perform them well.

B. FUTURE EMPLOYMENT RELATIONSHIPS

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

Yes.

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, provide details.

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.

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.

None to my knowledge.

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.

None to my knowledge.

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.

None.

4. Explain how you will resolve any potential conflicts of interest, including any that may be disclosed by your responses to the above items. (Provide the Committee with two copies of any trust or other agreements.)

Not applicable. However, should a potential conflict come to my attention, I will advise and work with the appropriate officials at the Department to address the issue.

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.

I have been informed that this will be done.

Question 6 does not apply to this position.

D. LEGAL AND OTHER 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 a 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.

No.

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.

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

I have devoted most of my professional life to public service in various positions of trust. In none of those positions have I violated – or been accused of violating – that trust.

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.

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

Yes.

Questions for the Record- Senator Max Baucus:

Russell George

1. Over the last several years, many of IRS's compliance and collection programs have declined substantially. For example, between fiscal years 1996 and 2001, coverage for the individual taxpayer audit and matching compliance programs declined by 63 and 29 percent and coverage by the telephone and field collection programs declined by 15 percent and 45 percent, respectively. In addition, according to former Commissioner Rossotti, 56 percent of identified taxpayers with incomes of \$100,000 or more and underreport tax are not pursued by the IRS. Seventy-nine percent of identified taxpayers who use abusive devices (e.g., offshore accounts) to evade tax are not pursued. Seventy-five percent of taxpayers who do not file a tax return are not pursued and 60 percent of identified tax debts are not pursued. The declines in IRS's compliance and collection programs are a strategic issue that puts a major part of the agency's mission, ensuring compliance with the tax laws, at risk.

- Considering IRS' competing demands for compliance resources, what strategies do you believe IRS should pursue to ensure that compliance and collection programs operate at effective levels to enhance voluntary compliance?

Response: My responses to these important questions are based on information available to me as a member of the public, and not on information known to the Office of the Treasury Inspector General for Tax Administration (TIGTA). Accordingly, if I am confirmed by the Senate, my views might change once I am privy to the information maintained by the agency.

With that said, a coordinated and effective compliance program must be based on a clear understanding of the areas of noncompliance in our tax system. I understand that the Internal Revenue Service (IRS) does not have current information on noncompliance, including where noncompliance is greatest and the resulting lost revenue to the Federal government. Recent IRS estimates of the "tax gap" are based on very dated information. While the clear message remains that action needs to be taken by the IRS to address noncompliance, to my knowledge, a clear, accurate roadmap does not currently exist. I understand that the National Research Program (NRP) will provide the IRS with important and current measures of noncompliance. The various phases of the NRP must be completed as soon as possible. It is an important step in the effort to address the problems you have cited.

- Modernization and the accompanying productivity savings might enable IRS to accomplish more with less, but at some point there has to be recognition that these cases can only be handled with additional personnel. According to IRS, it takes 300 hours to work one offshore credit case.
- Do you believe that IRS has enough personnel to pursue the thousands of offshore credit cases already identified?

Response: Again with the caveat expressed in response to the first part of this question, I believe that in light of the increased responsibilities placed on the agency, additional efficiencies and approaches (e.g., technologies) must be utilized and achieved in order to effectively address those taxpayers who have engaged in this tax scheme. I understand the IRS has developed a coordinated approach for and committed significant resources to this problem, and I will focus on understanding and evaluating these efforts if confirmed.

- How should the IRS cope with the thousands of cases of offshore noncompliance that have been identified?

Response: As with any initiative to encourage cooperation, incentives must be employed. Whether the "carrot" approach is used (e.g., further compliance initiatives) or the "stick" approach (e.g., additional, highly-publicized enforcement measures), the bottom line remains the same. There must be a sense among taxpayers that the agency cares about the problem and is devoting resources to it. Again, if confirmed I will focus on this serious problem and work with the IRS to ensure that appropriate steps are being taken to address this important issue.

- To what extent do you think IRS focuses too much attention on those taxpayers trying to comply with our tax laws versus those who operate completely outside the system (i.e., the non-filers)?

Response: It is imperative that the IRS clearly send the message that all noncompliance, including nonfiling, will not be tolerated. A significant challenge faced by the IRS is deciding how to prioritize its resources and efforts so that it appropriately addresses both high-profile compliance issues such as abusive transactions as well as long-standing compliance issues such as nonfiling. As with my response to the previous question, the agency can take different approaches to the specific problem of nonfiling. Whatever method is used, the target audience must be made aware of it. One can find a cure to a disease, but if no one knows about it, what good is it?

- The decline in collection coverage reflected the inability of IRS's collection programs to work a growing proportion of the delinquent cases

referred from the compliance programs. In response, by fiscal year 2001, IRS was deferring collection action on about one out of three assigned delinquencies. GAO estimated that by the end of fiscal year 2001, IRS had deferred collecting taxes from about 1.3 million taxpayers who collectively owed about \$16.1 billion. The signal to taxpayers resulting from inaction on these cases appears to be a risk to voluntary compliance.

- What steps should the IRS be taking to address this issue?

Response: As your question suggests, any message sent that the agency is not enforcing aspects of the Internal Revenue Code poses a risk to compliance. As I noted during the hearing, I support the IRS' use of private debt collectors (PCAs) to assist the IRS' collection efforts. PCAs will enable the IRS to expand the Government's capacity to reach taxpayers with outstanding tax liabilities, and I understand that the Administration's proposal has been carefully crafted to protect fully all taxpayer rights. PCAs will allow the IRS to focus its own resources on more complex cases and issues while at the same time reaching many taxpayers that the IRS currently cannot pursue in light of existing collection and resource priorities. In addition, other collection tools to show the agency's efforts to enforce the law must be visible, effective and fairly applied.

- What benchmarks should the IRS have with respect to noncompliance issues?

Response: I respectfully defer my response to this question until I have had access to information currently not available to me.

2. IRS's treatment of taxpayers was a major concern that was reflected in the IRS Restructuring Act of 1998. In 1998 Congress passed the IRS Restructuring and Reform Act to ensure that IRS better balanced its responsibilities for enforcing tax law with appropriate treatment of and levels of service to taxpayers. To achieve improved levels of service, the Act called for major changes in IRS operations.

- What is your assessment of the progress IRS has made in protecting taxpayers' rights?

Response: I respectfully defer a response to this question until I have had access to information currently not available to me.

- Do you believe the IRS has achieved an appropriate balance between its responsibilities to provide improved service to taxpayers and to enforce tax law?

Response: A more complete response to this question also requires access to information I presently do not have. I note that in the IRS 2005-2009 Strategic Plan, the Commissioner noted the continuing need to balance service to the American taxpayer with enforcement of the tax laws. It is my understanding that the Commissioner and the IRS are working to properly “rebalance” service and enforcement.

- If so, what do you think your role is in ensuring continued balance?
- If not, what is your role in helping the IRS find and achieve an appropriate balance?

Response: The responsibility of TIGTA is clearly delineated in both the Inspector General Act, and the IRS Restructuring and Reform Act of 1998. The office will review through its audit function, and when needed its investigative function, all agency initiatives in this very important area.

3. The IRS has now invested many years and billions of dollars in multiple modernization efforts intended to improve service to taxpayers and better ensure taxpayer compliance with the tax laws. So far, IRS has made important progress at laying the management foundation for a more modern agency that is able to respond to taxpayer needs faster, more accurately, and at a lower cost. IRS must successfully manage several significant challenges that threaten continued modernization. Challenges include addressing the decline in compliance and collection programs, managing the deployment of several large business systems, and implementing new performance measures and management processes.

The IRS has now invested many years and billions of dollars in multiple modernization efforts intended to improve service to taxpayers and better ensure taxpayer compliance with the tax laws. However, at this time, neither the foundation nor the structure—the reengineered processes that would deliver better service and improve compliance—is complete.

What is your general reaction to the major steps taken by the IRS regarding organizational structure, information systems, a performance management system, and reengineered key processes?

Response: The IRS' efforts to realign itself into taxpayer-specific operating

divisions are key to achieving an agency for the 21st Century. This action will provide the agency with a secure platform from which to continue effective modernization efforts and improve accountability, service to the customer (i.e., the American taxpayer) and encourage fuller compliance with the law. While significant progress has been attained, much more needs to be done. If confirmed, the IRS' modernization efforts will be a major focus of my attention.

Do you currently see any significant areas in IRS's overall management framework that you believe should be modified?

Response: Please refer to the answer provided for the next question.

If so, what weaknesses do you see and how do you plan to address them?

Response: The IRS must continuously evaluate and measure its modernization efforts and milestones against the objectives it established for the project. The agency's experience with the business systems modernization (BSM) effort is an example of this. Significant cost overruns and delays have plagued critical aspects of this initiative. In order for the IRS to succeed in its modernization effort, this complex project must achieve its goals. This will require effective management of the BSM effort, especially of the performance of the contractors involved.

What do you believe are the long-term risks to IRS's modernization and what are the consequences if they are not successfully managed?

Response: While I do not have access to the appropriate information needed to fully respond to this question, there is no doubt that the IRS must achieve the efficiency and productivity gains that a successful BSM effort would provide if the IRS is to successfully fulfill its mission in the long term.



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

Opening Statement of Sen. Chuck Grassley

United States Senate Finance Committee Hearing on the Nominations of
 J. Russell George, to be Inspector General for Tax Administration;
 Patrick P. O'Carroll, to be Inspector General, Social Security Administration;
 Timothy Bitsberger, to be Assistant Secretary of the Treasury; and
 Paul Jones, to be Member of the Internal Revenue Service Oversight Board

July 7, 2004

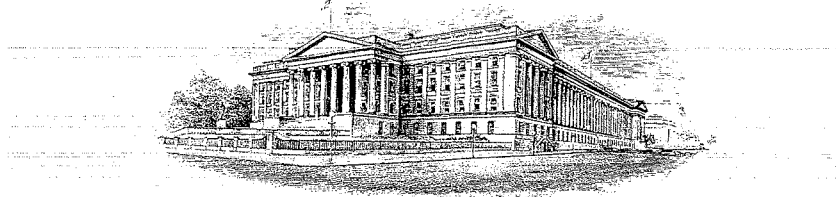
We are here this morning to consider four nominations that are currently pending before the Finance Committee. First, we will hear from Mr. Russell George, who has been nominated by the President to serve as Inspector General for Tax Administration at the Department of the Treasury. Mr. George currently serves as Inspector General at the Corporation for National and Community Service. Throughout his long and distinguished career in public service, he also served as Staff Director of the House Government Reform Committee's Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations. He also served in the White House during the first Bush Administration.

We will then hear from Mr. Patrick O'Carroll, who has been nominated to serve as Inspector General at the Social Security Administration. Mr. O'Carroll currently serves in the Office of the Inspector General at the Social Security Administration as the Assistant Inspector General in the Office of Investigations. Mr. O'Carroll worked with me both in my capacity as Finance chair and when I was chairman of the Aging Committee.

We will also hear from Timothy Bitsberger, who has been nominated to the position of Assistant Secretary for Financial Markets within the Department of the Treasury. Since October 2002, Mr. Bitsberger has served as Deputy Assistant Secretary for Federal Finance at the Department of the Treasury. I am confident that his experience in financial markets, both at the Department of the Treasury, as well as in the private sector, will serve the taxpayers well in his new position.

Finally, we will hear from Paul Jones, who has been nominated to be a member of the IRS Oversight Board. Mr. Jones currently serves as a Senior Vice-President at Time Warner Telecom.

We will hear from our nominees shortly, but first, I am pleased to recognize my colleague, Senator Sununu, to introduce one of our nominees.



**DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS**

For Immediate Release
July 7, 2004

Contact: Tara Bradshaw
(202) 622-2014

**OPENING STATEMENT OF PAUL B. JONES
FOR THE HEARING ON CONFIRMATION OF HIS NOMINATION TO THE IRS
OVERSIGHT BOARD**

BEFORE THE SENATE FINANCE COMMITTEE

Chairman Grassley, Ranking Member Baucus, Members of the Senate Finance Committee, thank you for holding this hearing today. I am honored to appear before this committee today as you consider my nomination to become a member of the IRS Oversight Board. I thank the President for nominating me and the Secretary of the Treasury for choosing me as a candidate.

I am pleased to have my wife, Ruth, seated behind me and she joins me in thanking you for convening this hearing today.

I am a graduate of Yale College, class of 1968, and a graduate of the Yale Law School, class of 1971. In private law practice early in my career, I represented large corporate clients engaged in private international business transactions. Working with the Coudert Freres Paris office, I was engaged in corporate and tax structuring transactions largely for multi-national business. Moving back to New York in 1973, I remained with Coudert Brothers and focused on developing skill as a defense trial lawyer representing the three major broadcast networks. During that period, the CBS 60 Minutes program became my principal client, under their Lloyds of London insurance coverage and our representation of CBS as defense counsel designated by Lloyds.

Press coverage of the issues raised in one of my 60 Minutes cases brought my name to the attention of the Federal Communications Commission in 1976 when I was invited to serve as a co-director of a task force charged with exploring the economics of video program production and distribution. The ultimate goal of that task force was to recommend regulatory change required to incentivize the expansion of program choice for the American public beyond the three commercial broadcast networks. I accepted and also served as Assistant General Counsel for the FCC. That was my first foray into public service, and based on that experience, I vowed that again later in my career, I would hope to serve the public, sharing experience gained in the

private sector. And happily, I am before you today seeking confirmation so that I may serve on the IRS Oversight Board.

In the years following that FCC experience, I have served as Vice President for Strategy and Business Development for CBS, as General Counsel for Warner Communications Cable business, as Senior Vice President Corporate Development for Time Warner Cable Ventures, and, serving as Senior Vice President, General Counsel and Regulatory Policy for Time Warner Telecom, I am part of a management team that has grown Time Warner Telecom from an idea to a publicly traded company with annual revenues that are now approaching one billion dollars. This company is 41% owned by Time Warner, Inc. but traded separately on NASDAQ.

During the growth of Time Warner Telecom, I have participated in decision making around the company's computer systems development, process re-engineering, software vendor selection, and in many other operating areas creating greater efficiencies as we have scaled the business. Creating and executing on the strategy or vision for the company is the principal responsibility of our Senior Management Team and our Board of Directors which, as Secretary for the Company, I also serve.

I now find myself in the position where the knowledge and experience I've gained through my corporate experience can be put to good use in the service of the public. I am honored and privileged to be nominated to give something back to my country. I believe that by serving as a member of the IRS Oversight Board, I can apply the good governance principles I have learned in the private sector to a public sector institution that affects virtually every American.

In recommending the creation of the IRS Oversight Board, the National Commission on Restructuring the Internal Revenue Service issued its report in 1997 stating, as Chairman Grassley well knows, that the IRS Oversight Board should be focused on providing strategic direction to the IRS. If confirmed, I will embrace that mission, steered in the conviction that the interests of American taxpayers are served where improved and modernized business processes and systems support both service and enforcement, by improved and simplified processes both for filing and administration, and by awareness programs that help both taxpayers and tax professionals understand that, as a country, we are far better off with core values that support, rather than avoid, the payment of our taxes.

Thank you again Chairman Grassley, Ranking Member Baucus, and Members of the Senate Finance Committee for the honor of appearing before you today.

SENATE FINANCE COMMITTEE
STATEMENT OF INFORMATION REQUESTED OF NOMINEE

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)
Paul Byron Jones
2. Position to which nominated:
IRS Oversight Board
3. Date of nomination:
December 9, 2003
4. Address: (List current residence, office, and mailing addresses.)
7867 South Forest Street, Centennial, Colorado 80122
5. Date and place of birth:
December 26, 1946, Columbus, Ohio
6. Marital status: (Include maiden name of wife or husband's name.)
Married, Ruth Jury Thomasson
7. Names and ages of children:
Lauren A. Jones, 23; Paul B. Jones, Jr., 22; Allison C. Jones, 17; Christen Thomasson, 21; (stepdaughter), Megan Thomasson, 19; (stepdaughter).
8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)
Worthington High School, Diploma '60-64, Yale College, '64-68, B.A., Yale Law School, '68-72.
9. Employment record: (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)

Senior V.P., General Counsel & Regulatory Policy	Time Warner Telecom	Littleton, Colorado	8/98 - Present
Senior V.P., Legal and Regulatory Policy	Time Warner Telecom	Littleton, Colorado	10/93-8/98
Senior VP, Corporate Development	Time Warner Cable Ventures		6/92-9/93
Senior VP & General Counsel	Warner Cable		6/87-5/92

- | | | | |
|--|--|---------------------------|------------|
| Vice President, Strategy & Development, CBS Publishing Group | CBS, Inc. | | 5/85-11/86 |
| President, Contemporary Multi-Channel Services | Contemporary Communications | | 5/84-5/85 |
| Head of the Broadcast Development Unit: General Counsel's Office | CBS, Inc. | | 4/81-5/84 |
| General Attorney | American Broadcasting Companies, Inc. | | 9/79-4/81 |
| Assistant General Counsel, Co-Director, Network Inquiry, Director Low Power Television Inquiry | Federal Communications Commission | | 4/77-9/79 |
| Associate (Private Law Practice) | Coudert Brothers
Coudert Freres Paris | New York
Paris, France | 6/72-3/77 |
| Faculty Member, Yale College | Yale University | | 9/68-6/72 |
10. Government experience: (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)
11. Business relationships: (List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.)
- | | | | |
|------------------------------------|----------------------|-----------------------|-------------------|
| Time Warner Telecom, Inc. | Business Corporation | Senior Vice President | 05/1999 - Present |
| Time Warner Telecom Holdings, Inc. | Business Corporation | Senior Vice President | 12/1993 - Present |
| Time Warner Telecom Holdings, Inc. | Business Corporation | Director | 10/1998 - Present |
| MetroComm, Inc. | Business Corporation | Senior Vice Present | 06/1999 - Present |
12. Memberships: (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)
American Bar Association, New York State Bar, Federal Bar (Southern District of New York)
13. Political affiliations and activities:
- List all public offices for which you have been a candidate.
N/A
 - List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.
N/A
 - 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.

George W. Bush, Mike DeWine, National Republican Committee, Time Warner Telecom PAC, Cable PAC, Senator Hollings, Rep. M. Cantwell, Representative E.J. Markey, Strickland for Senate.

14. Honors and Awards: (List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals, and any other special recognition for outstanding service or achievement.)
Aurelian Honor Society, Yale College, High School Football Hall of Fame, All Ivy Football, Honorable Mention, Bronze medal winner in the '68 NCAA Winter Track and Field Championship, Vice President, DKE; President, Black Student Association; Vice President Elihu.
15. Published writings: (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)
Biography of Representative Frederic R. Coudert, Jr., The Stinehour Press, Lunenburg, VT 1985. In 1971, I also authored an article for the Yale Law School Journal of Law and Social action analyzing the due process principles for juvenile offenders articulated by the United States Supreme Court in light of a statistical research study regarding the principal causes for detaining youthful offenders, using the records of the juvenile court system for the state of Connecticut.
16. Speeches: (List all formal speeches you have delivered during the past five years which are on topics relevant to the position for which you have been nominated. Provide the Committee with two copies of each formal speech.)
17. Qualifications: (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)
As part of the Time Warner Telecom senior management team, I am engaged in the discussion and implementation of process re-engineering and the systems development required to achieve scale and efficiency in the provisioning, maintenance and billing of telecom customers. The issues we confront in change management and the solutions we develop will contribute to Problem identification and creation of solutions regarding improvements in the operation of the IRS.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, associations, or organizations if you are confirmed by the Senate? If not, provide details.
No, I will continue to be employed by Time Warner Telecom.
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, provide details.

I have an ownership interest in a developmental software platform. The plan is to complete the patent application for the software, create an entity that will own it, and open conversation with companies that may wish to license or acquire the patent rights.

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.
I have an Employment Agreement with Time Warner Telecom that expires in 2005. That Agreement may be renewed.
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.

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.
None.
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.
None.
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 actively encouraged the enactment of the 1996 Telecommunications Act and similar state legislation.
4. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Provide the Committee with two copies of any trust or other agreements.)
I know of no actual or potential conflict of interest.
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.

D. LEGAL AND OTHER 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 a 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 was prevailing plaintiff in a malpractice litigation that I filed against the Ballon, Stall & Itzler law firm. The Federal District Court for the Southern District of New York found the Ballon firm liable for malpractice, entering a judgment in my favor on July 30, 1990.
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
5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

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

2. Provide a list of all other liabilities of \$10,000 or more owed, directly or indirectly, at any time during the last 12 months. Identify the nature of each liability, the amount, the name of the creditor, the terms of payment, the security or collateral, and the date of the debt repayment.

On December 20, 2001, I opened a margin loan with The Key Group, then a Bear Stearns correspondent, in the amount of \$182,112.43 secured by what was then a tax free municipal bond portfolio, now the Treasury note portfolio identified above, to pay off the mortgage on my residential real estate property. The margin loan was paid off in full on September 24, 2002 by applying the accumulated interest income from the bond portfolio and by applying accruing bond interest on a monthly basis over the period from January 2002 to September, 2002.

In June, 2003 again, I opened a margin loan in the amount of \$17,000 secured by the treasury notes identified above to pay college and prep school tuitions. The loan was paid off in full in August 2003 by applying a Treasury note interest payment to the balance.

3. Provide a list and the amounts of all transactions in securities, commodities futures, real estate, or other investments, having a value of \$10,000 or more, which have taken place within the last 12 months.

In addition to the transaction identified in response to (2.) above, I sold 10,000 shares of Time Warner Telecom restricted stock on November 17, 2003. The gross pre-tax proceeds from that sale were \$103,102, which sum was ordinary income. Under a 10b-5(1) plan, 22,500 shares of Time Warner Telecom stock were sold between November 25, 2003 and January 20, 2004. The ordinary income pre-tax proceeds from the sale were \$ 191,153.59.

4. Describe the terms of any beneficial trust or blind trust of which you, your spouse, or your dependents may be a beneficiary. In the case of a blind trust, provide the name of the trustee(s) and two copies of the trust agreement.

None.

5. Provide a description of any fiduciary responsibility or power of attorney which you hold for or on behalf of any other person.

None.

6. Provide a list of the sources and the amounts of all items of value in an amount exceeding \$1,000 per source received during the period subsequent to the tax returns provided to the Committee. This list should include, but not be limited to, salaries, wages, fees, dividends, capital gains or losses, interest, gifts, rents, royalties, patents, and honoraria. Gifts received from members of your immediate family need not be listed.

**SENATOR JIM BUNNING
QUESTIONS TO Mr. Jones**

Hearing on Nomination of Mr. Paul Jones
Nominee for The IRS Oversight Board
**Senate Committee on Finance
7 July 2004**

1. At the end of 2003, Treasury issued a Notice of Proposed Rulemaking to modify the regulations governing best practices for lawyers appearing before the IRS – commonly referred to as Circular 230.

Specifically, the Notice of Proposed Rulemaking would modify the disclosure requirements accompanying tax shelter opinions, including changes regarding the treatment of municipal bonds.

In mid-March, Treasury and the IRS issued an interim announcement stating that municipal bonds will receive a 120-day grace period from the final regulations – if the final regulations apply to municipal bonds “if at all.”

Mr. Jones, could you provide me with an update on the status of the proposed Circular 230 regulations?

Response

I have been informed by the Treasury Department’s Office of Tax Policy that revisions to Circular 230 are a high priority for both the Treasury Department and the IRS, and that further guidance is expected this summer. Numerous comments were submitted in response to the Notice of Proposed Rulemaking issued in December 2003, and the Treasury Department and the IRS are reviewing all of these comments carefully.

BLANCHE LAMBERT LINCOLN
ARKANSAS

385 DIRKSEN SENATE OFFICE BUILDING
TELEPHONE: (202) 224-4843

www.senate.gov/~lincoln

United States Senate

WASHINGTON, DC 20510

COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
FINANCE
SELECT COMMITTEE ON ETHICS
SPECIAL COMMITTEE ON AGING

June 26, 2003

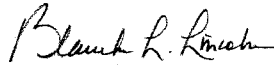
Mr. Van Zeck,
Commissioner
Bureau of the Public Debt
U.S. Treasury Department
999 E Street
Suite 501
Washington, DC 20239-0001

Dear Commissioner Zeck,

I have been concerned about recent press accounts detailing how net lender nations, such as China, are purchasing large quantities of U.S. Treasury notes. This means, in effect, that American taxpayers are paying taxes which are providing government goods and services to the citizens of other countries. Please provide me with a detailed account of the amounts and percentages of U.S. debt owned by China and other nations, individuals, and other entities both domestically and abroad. I am particularly interested to review any data that the Treasury Department has gathered concerning trends in debt purchases by foreign governments.

Thank you in advance for your attention to my request. Please do not hesitate to contact me, or Mac Campbell of my staff, if I can be of assistance to you.

Sincerely,



Blanche L. Lincoln

BLL/mc



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

October 8, 2003

Dear Senator Lincoln:

I am replying to your letter to Commissioner Zeck expressing concern about Chinese purchases of U.S. treasury notes and requesting information on debt owned by China and other countries.

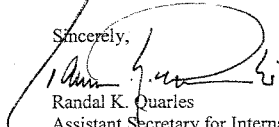
The attached table shows the estimated holdings of the entities which are major foreign holders of U.S. Treasury securities, along with the estimated aggregate holdings of foreign official institutions. This table is based on information from our website, <http://www.treas.gov/tic/>, in particular the table, "Major Foreign Holders of U.S. Treasury Securities".

Estimates of foreign holdings of U.S. securities are subject to some error since they are based, in part, on information on recent transactions in Treasury bonds and notes. Transactions often take place through countries in which the transactors are not residents, and the location of the buyer or the seller of security can be confused with the place where the transaction takes place.

Treasury is currently taking steps to reduce distortions resulting from this kind of confusion.

I appreciate your sharing your views with us.

Sincerely,


Randal K. Quarles

Assistant Secretary for International Affairs

Attachment

The Honorable Blanche L. Lincoln
United States Senate
Washington, D.C. 20510

MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES
(holdings 1/ at end of period, in billions of dollars)

COUNTRY	July 2003					Mar. 2003					Dec. 2002					Dec. 2001					Dec. 2000					Mar. 2000				
	Holdings (\$ billion)	% of				Holdings (\$ billion)	% of				Holdings (\$ billion)	% of				Holdings (\$ billion)	% of				Holdings (\$ billion)	% of				Holdings (\$ billion)	% of			
		Total	Public	Private	Debt		Total	Public	Private	Debt		Total	Public	Private	Debt		Total	Public	Private	Debt		Total	Public	Private	Debt		Total	Public	Private	Debt
Japan	443.0	6.6%	13.7%			385.6	6.0%	12.6%			394.7	5.7%	12.1%			317.9	5.3%	11.3%			317.7	5.6%	11.0%			307.6	5.3%	9.7%		
United Kingdom	142.3	2.1%	4.4%			111.2	1.7%	3.8%			108.5	1.7%	3.6%			45.0	0.8%	1.8%			50.2	0.9%	1.7%			78.6	1.4%	2.5%		
United States	126.1	1.9%	3.9%			117.7	1.5%	3.8%			102.9	1.8%	3.4%			78.6	1.3%	2.8%			60.3	1.1%	2.1%			71.4	1.2%	2.2%		
Canada	78.9	1.2%	2.4%			71.5	1.1%	2.3%			62.0	1.0%	2.1%			33.6	0.6%	1.2%			37.4	0.7%	1.3%			47.9	0.8%	1.5%		
Germany	51.3	0.8%	1.6%			42.8	0.7%	1.4%			44.1	0.7%	1.5%			41.8	0.8%	1.7%			49.0	0.9%	1.7%			56.4	1.0%	1.8%		
Hong Kong	50.9	0.8%	1.6%			49.8	0.8%	1.9%			48.1	0.8%	1.9%			47.7	0.8%	1.7%			38.6	0.7%	1.3%			39.2	0.7%	1.2%		
France	44.6	0.7%	1.4%			41.7	0.6%	1.4%			43.1	0.7%	1.4%			32.8	0.6%	1.2%			29.6	0.5%	1.0%			24.7	0.4%	0.8%		
Korea	37.1	0.5%	1.1%			34.5	0.5%	1.1%			34.5	0.5%	1.1%			35.3	0.6%	1.3%			33.4	0.6%	1.2%			43.6	0.8%	1.4%		
Taiwan	32.5	0.5%	1.0%			34.7	0.5%	1.1%			42.2	0.7%	1.4%			48.8	0.8%	1.7%			47.7	0.8%	1.7%			43.9	0.8%	1.4%		
OPEC																														
International & Regional Organizations 3/	28.9	0.4%	0.9%			29.7	0.5%	1.0%			30.7	0.5%	1.0%			28.2	0.5%	1.0%			28.5	0.5%	1.0%			29.4	0.5%	0.9%		
Belgium-Luxembourg	25.6	0.4%	0.8%			24.1	0.4%	0.8%			24.6	0.4%	0.8%			22.4	0.4%	0.8%			29.6	0.5%	1.0%			27.1	0.5%	0.9%		
Mexico	25.3	0.4%	0.8%			23.4	0.4%	0.8%			22.9	0.4%	0.8%			19.7	0.3%	0.7%			15.3	0.3%	0.5%			14.4	0.2%	0.5%		
Switzerland	21.4	0.3%	0.7%			21.2	0.3%	0.7%			18.9	0.3%	0.6%			19.7	0.3%	0.7%			18.4	0.3%	0.6%			24.3	0.4%	0.8%		
Singapore	20.5	0.3%	0.6%			18.5	0.3%	0.6%			17.8	0.3%	0.6%			20.0	0.3%	0.7%			27.9	0.5%	1.0%			35.2	0.6%	1.1%		
Italy	19.1	0.3%	0.6%			18.7	0.3%	0.6%			18.6	0.3%	0.6%			18.9	0.3%	0.6%			20.5	0.4%	0.7%			18.7	0.3%	0.6%		
Canada	18.2	0.3%	0.6%			10.7	0.2%	0.3%			11.2	0.2%	0.4%			15.4	0.3%	0.6%			14.2	0.3%	0.5%			13.8	0.3%	0.5%		
Spain	14.8	0.2%	0.5%			13.1	0.2%	0.4%			17.6	0.3%	0.5%			15.6	0.3%	0.6%			19.0	0.3%	0.5%			19.5	0.3%	0.6%		
Thailand	13.6	0.2%	0.4%			13.3	0.2%	0.4%			16.3	0.3%	0.5%			15.7	0.3%	0.6%			13.0	0.2%	0.5%			14.0	0.2%	0.4%		
France	9	0.1%	0.3%			11.7	0.2%	0.4%			17.0	0.3%	0.6%			20.6	0.3%	0.7%			25.1	0.4%	0.9%			33.6	0.5%	1.1%		
Netherlands	*					*					*					5.2	0.1%	0.2%			11.4	0.2%	0.4%			14.5	0.2%	0.4%		
All Other	185.9	2.8%	5.7%			171.8	2.7%	5.6%			158.0	2.5%	5.2%			154.6	2.6%	5.5%			129.3	2.3%	4.5%			125.4	2.2%	3.9%		
GRAND TOTAL	1388.8	20.6%	42.8%			1246.6	19.3%	40.6%			1203.7	18.8%	39.9%			1040.1	17.5%	36.9%			1015.2	17.9%	35.2%			1085.0	18.8%	34.1%		
of which,																														
Foreign Official	721.7	10.7%	22.2%			679.5	10.5%	22.1%			657.3	10.3%	21.8%			618.4	10.4%	22.0%			609.2	10.8%	21.1%			635.6	11.0%	20.0%		
Total Public Debt	6751.2					6460.8				6405.7					5945.4					5652.2						5773.4				
Federal Reserve & Govt Accounts	3501.2					3391.3				3387.2					3123.9					2781.8						2590.6				
Privately Held	3250.0					3069.5				3018.5					2819.5					2880.4						3182.8				

Source: U.S. Treasury, September 18, 2003. Treasury webpage at <http://www.treas.gov/crmln/tb> and Treasury Bulletin Table OFS-2 (also available on Treasury website)

1/ Estimated foreign holdings of U.S. Treasury marketable and nonmarketable bills, bonds and notes are based on Treasury Foreign Portfolio Investment Survey (FFIS) benchmark as of end-March 2000 and on monthly data reported under the Treasury International Capital (TIC) reporting system.

2/ Bahamas, Bermuda, Cayman Islands (replaced British West Indies in reporting format in 2001), Netherlands Antilles, and Panama.

3/ Principally the International Bank for Reconstruction and Development (World Bank), Inter-American Development Bank and the Asian Development Bank.

* less than \$50 million.

BLANCHE LAMBERT LINCOLN
ARKANSAS

255 DIRKSEN SENATE OFFICE BUILDING
TELEPHONE: (202) 224-4843

www.senate.gov/~lincoln
<http://lincoln.senate.gov/html/webform.html>

United States Senate

WASHINGTON, DC 20510

COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
FINANCE
SELECT COMMITTEE ON ETHICS
SPECIAL COMMITTEE ON AGING

October 2, 2003

The Honorable John Snow
Secretary
Department of the Treasury
1500 Pennsylvania Ave. N.W.
Washington, D.C. 20220

Dear Mr. Secretary,

In June I wrote the Commissioner of the Bureau of Public Debt requesting information concerning who holds and benefits from United States debt instruments. On July 8th my request was referred to the office of the Assistant Secretary of the Treasury for Financial Markets. I have yet to receive any information from the Treasury Department concerning my request. Since that time it has come to my attention that the United States may have acquired an additional \$200 billion in foreign held debt due to the occupation of Iraq.

Please provide my office with a detailed account of the amounts and percentages of United States debt held by other nations, individuals, and any other domestic or foreign entities. Please also provide me with any information collected by the Treasury Department which shows trends in United States debt purchases by foreign governments.

I would also like to know if the United States has in fact assumed the debt owed by Iraq to other nations. If so, please provide my office with a detailed account of the amounts and percentages of Iraqi debt assumed by the United States held by other nations, individuals, and any other United States or foreign entities. Further, will interest obligations related to this debt be included in the Administration's next budget baseline projections?

Finally, please provide my office with an official estimate of the net present value of the future entitlement obligations of the United States government. It is my understanding that a recent study by the Department of the Treasury showed that the United States should have approximately \$44 trillion set aside earning interest in order to adequately fund Social Security, and Medicare, as well as military and government retiree entitlement obligations. Has the net present value of U.S. obligations increased since this study was issued and, if so, by how much?

Thank you for your attention to my request. Please do not hesitate to contact me or Mac Campbell of my staff at 202-224-4843 if you have any questions or clarifications.

Sincerely,



Blanche L. Lincoln

BLL/mc

TOTAL P.02

P.02



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

November 14, 2003

Dear Senator Lincoln:

I am replying to your October 2 letter to Secretary Snow regarding information on foreign ownership of U.S. debt instruments that you had previously requested. In that letter, you also asked whether the United States has assumed debt owed by Iraq to other nations, and requested an official estimate of future entitlement obligations of the United States Government.

I responded to your previous request in my letter of October 8. I regret that our response was so late.

Concerning the questions asked in your October 2 letter, the United States has not assumed the debt owed by Iraq to other nations. Also, Treasury does not publish a comprehensive estimate of the net present value of future entitlement obligations. We believe, however, that government financial reports should be more forward-looking and are seeking to expand the use of infinite-horizon calculations whenever it is technically feasible to make credible estimates. The 2003 Report of the Social Security Board of Trustees, for example, provided an estimate of the net present value of unfunded benefit obligations into the indefinite future on an open-group basis. The \$44 trillion estimate that you cite is not part of a Treasury study.

I appreciate your sharing your views with us.

Sincerely,

Randal K. Quarles
Assistant Secretary for International Affairs

The Honorable Blanche L. Lincoln
United States Senate
Washington, D.C. 20510

P.02

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DEPARTMENT OF THE TREASURY
BUREAU OF THE PUBLIC DEBT
WASHINGTON, DC 20239-0001

July 8, 2003

The Honorable Blanche L. Lincoln
United States Senate
Washington, DC 20510

Dear Senator Lincoln:

Thank you for your letter inquiring about Treasury securities being purchased by China and other nations. I am happy to respond.

Because our role at the Bureau of the Public Debt is operational in nature, I am referring your letter to the office of Brian C. Roseboro, Assistant Secretary of the Treasury for Financial Markets. I am sure you will be hearing from that office in the near future.

Please let me know whenever I can be of help. You can reach me on (202) 691-3502.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter E. Hollenbach".

Peter E. Hollenbach
Director, Legislative and Public Affairs

cc: Office of the Assistant Secretary of the Treasury
for Financial Markets

DEALS

Allan Sloan

Foreigners Own More of Nation's Debt

We've just finished celebrating the Fourth of July. What better time than now to contemplate the state of our nation's independence? Financial independence, that is.

Here's the deal. The United States has the mightiest economy in the world, but we've become enormously dependent on foreign investors to lend us the money it takes to keep Uncle Sam's checks from bouncing. At least, that's how I interpret Treasury statistics that track the size and ownership of our national debt.

The statistics show that foreign and international investors account for the entire increase in privately owned Treasury

securities since George W. Bush took office. Issuing those securities is how the Treasury covered federal budget shortfalls. Privately owned Treasury securities are those that belong to investors, as opposed to those owned by federal government trust funds or the Federal Reserve Board. Private investors own about half our \$7 trillion-plus of national debt; the Fed and federal trust funds own the rest.

According to Treasury data—table OFS-2, if you want see for yourself, on the Web at www.fms.treas.gov/bulletin/b24ofs.doc—when the Bush administration

See DEALS, E3, Col. 4

Market Holiday

DEALS

Uncle Sam's Securities Go Increasingly Global

DEALS, From E1

started, we had \$2.88 trillion of privately held national debt, of which \$1.03 trillion was owned by foreign and international investors. As of March 31, the most recent data available, privately owned debt had risen to \$3.5 trillion, of which foreigners owned \$1.71 trillion.

Now, a little math. Privately owned debt, as you can see, was up by \$620 billion since the Bush administration started—but foreigners' holdings were up by \$680 billion. This means that foreigners accounted for the entire increase in privately held debt—and then some.

To the sticklers among you: My starting point for this math is year-end 2000, three weeks before Bush took office. I used that date because the Treasury table offers only quarter-end numbers. But the three-week overlap with the Clinton administration isn't significant.

Besides, by ending at March 31—the June 30 numbers weren't out last week—I'm cutting the president some slack. If recent patterns held during the second quarter, the numbers are even worse now. Foreign investors may well own a majority of privately held national debt. They held 49 percent on March 31, up from 36 percent when Bush took office.

Do you think the federal government has got a debt jones? Obviously, it does. Think we're hooked on foreign money to keep interest rates on Treasury borrowings from soaring into the stratosphere? What else is there to think?

Please understand that I'm not a xenophobe. Almost everyone in this country used to be a foreigner or is descended from foreigners. And foreign purchasers of Treasury securities have done this country a huge favor. They've kept interest rates here lower than they'd otherwise be and freed up U.S. investors' capital for uses more productive than financing budget

shortfalls created by tax cuts and our wars in Afghanistan and Iraq. (I've stopped attributing deficits to the recession, which ended almost three years ago.) Why should we care about our government getting hooked on foreign money? Because one day, for reasons of their own, foreign central banks, the major purchasers of Uncle Sam's securities, may cut way back or stop entirely. For strategic reasons, not malicious ones.

Foreign central banks often own Treasury securities to carry out strategies involving their own currencies. If their situation changes, they'll be gone. And we'll be up the creek.

We hear all sorts of comforting noises about how the budget deficit isn't so bad. That it's less than the 6 percent of gross domestic product it reached during the high point—make that the low point—of the fiscally irresponsible Reagan years. But when you add back the Social Security surplus—money we're supposedly setting aside for future retirees, but that we're

spending for current expenses—we're closing in on 6 percent.

Of course, given the fact that the rest of the world is financing so much of our deficit, maybe we should look at our deficit not relative to the U.S. GDP, but to world GDP. Or interplanetary GDP, if we can find Martians or Venusians with a few bucks to lend us.

My problem with getting heavily hooked on foreign money—or getting hooked on foreigners for any essential, such as oil—is that it makes us vulnerable. And one day, the bill will come in. It always does.

Remember that old saw: Whose bread I eat, his song I sing. Tune up your vocal cords, fans. I don't know what we'll have to sing to satisfy our foreign creditors if the day of reckoning arrives while we're still hooked on their loans. But it sure won't be America the Beautiful.

Sloan is *Newsweek's* Wall Street editor. His e-mail address is sloan@panix.com.

Global Markets

Yesterday's closes on major stock exchanges around the world

COUNTRY	INDEX	CLOSE	CHANGE
United States	S&P 500	Market closed	
Canada	S&P/TSX Composite	8486.00	—0.02%
Brazil	Sao Paulo Bovespa	21,670.29	+0.47%
Mexico	Bolsa	10,222.45	—0.18%
Argentina	Merval	979.93	+1.27%
Britain	FTSE 100	4403.30	—0.09%
France	CAC 40	3688.18	+0.08%
Germany	DAX Index	3995.73	—0.08%
Japan	Nikkei 225	11,541.71	—1.53%
Hong Kong	Hang Seng	12,252.11	+0.26%
South Korea	Composite	756.72	+0.17%
Singapore	Straits Times	1862.75	+1.27%

U.S. Senate

Committee on Finance



Statement for the Record

**Confirmation Hearing for Patrick P. O'Carroll, Jr.
To Be Inspector General of Social Security**

July 7, 2004

Good morning, Mr. Chairman, Ranking Member Baucus, and members of the Committee. I appreciate the opportunity to appear before this distinguished panel to discuss my vision for ensuring the integrity of Social Security's programs should I be confirmed.

I am honored that President Bush has nominated me for the position of Inspector General (IG) for the Social Security Administration (SSA). Henry Clay observed, "Government is a trust, and the officers of Government are trustees; and both the trust and the trustees are created for the benefit of the people." Although Americans face new challenges at home and abroad, there is no better time to be their trustee.

I believe I have ably demonstrated my commitment to our citizenry in my 34 years of public service. If I am granted the privilege of serving as Social Security's Inspector General, my organization and I will help America meet these new challenges and achieve even greater success.

My Experience and Qualifications

Throughout my career I have received extensive law enforcement experience and management training, including obtaining a Master of Forensic Sciences degree from George Washington University. My 26 years with the U.S. Secret Service in law enforcement management positions provided valuable experience as an investigator and a leader.

Over the past few years at the Office of the Inspector General (OIG), I have served as Special Agent-in-Charge of Congressional Affairs, Special Agent-in-Charge of Strategic Enforcement, and Assistant Inspector General for External Affairs—where I directed congressional affairs, quality assurance and professional responsibility for OIG. Most significantly, for the past 4 years I served as the Assistant Inspector General for Investigations, where I led investigators and employees in 64 offices throughout the nation.

In this position, I undertook a number of initiatives to reduce fraud, waste, and abuse in SSA's programs and operations. This includes my leadership of OIG's efforts in the:

- Cooperative Disability Investigative (CDI) Program;
- Fugitive Felon Program; and
- Identity Theft Task Forces;

The CDI Program is a collaborative effort with SSA and OIG to address the integrity of the disability programs. CDI's mission is to obtain evidence that can resolve questions of fraud in SSA's disability programs. Eighteen CDI units have been opened in 17 States since fiscal year (FY) 1998 with 2 units open in Texas.

Last year, GAO acknowledged the CDI program's successes by noting that we have increased the level of resources and staff devoted to investigating fraud and abuse. Our CDI teams identify fraud and abuse before benefits are approved and paid. In the first half

of FY 2004, the CDI units saved SSA's SSI and Old Age, Survivors and Disability Insurance (OASDI) programs almost \$64 million by identifying fraud and abuse related to initial and continuing claims within the disability program. In FY 2003, the CDI Program saved almost \$100 million. Since the inception of the program, over 5,000 claims have been denied or terminated.

The Fugitive Felon Program identifies fugitive felons receiving SSA benefits, stops payment and notifies law enforcement of their location. Federal legislation bars SSI for fugitive felons and for probation and parole violators, and provides for the exchange of certain SSI information with law enforcement agencies under specified conditions. Such fugitives are denied Federal assistance and parallel aid is also provided to law enforcement for their apprehension.

Our highly successful Fugitive Felon Program assists law enforcement with locating and apprehending criminals, making our neighborhoods safer. The program uses automated data matches to compare warrant information from the National Crime Information Center, the Federal Bureau of Investigation, the United States Marshals Service, and State agencies with SSI rolls. During FY 2003, we identified approximately 38,000 subjects receiving SSI payments—over 3,000 per month—resulting in over 6,500 apprehensions. SSA data contributed to the arrest of 3,329 fugitives in the first half of FY 2004—and over 19,000 arrests since the program's inception in 1996.

The Identity Theft Task Forces combat this insidious crime at its source. Our body of audit and investigative work permits us to give Congress our evaluation of suggested legislative changes and new techniques to improve SSN security and to decrease identity theft crimes. Our ongoing involvement in identity theft, SSN misuse, and homeland security is required by the role the SSN plays in establishing false identities and facilitating financial crimes that can be used to finance terrorism. Our central function in this area is to protect the integrity of the enumeration process and to ensure the accuracy of SSA's records.

I also led OIG in joint efforts with other Federal, State and local agencies, such as the Departments of Homeland Security and Justice, the Joint-Terrorism task forces, and other national antifraud efforts and counter-terrorism initiatives.

In the aftermath of September 11th, I represented OIG on an SSA-wide task force that addressed Social Security number (SSN) misuse and identified and recommended improvements for the SSN process.

My current position as Acting Inspector General has provided a great deal of insight into the challenges and opportunities facing SSA. As a result, I am frequently called upon to advise decision-makers on key areas to improve Social Security integrity.

The Office of the Inspector General

An important part of our mandate is to provide timely, useful and reliable information and advice to Administration officials, Congress and the public. To meet this mandate, in 1997, I established an Office of External Affairs focusing on quality assurance and congressional liaison, vitally important in fostering a strong, open relationship with Congress while providing timely and accurate information.

That relationship ultimately depends on our performance. We must continue to conduct our audits and investigations with the strictest adherence to legal and professional standards, and make the most efficient use of our resources to prevent fraud on the front-end of SSA's business processes.

No program touches more lives than Social Security. As stewards of this sacred trust, we work continuously to maintain the efficiency and effectiveness of SSA and its programs, and to eradicate fraud, waste, and abuse.

SSA OIG is a crucial component in the fight against SSA program fraud. In FY 2003, our investigators arrested over 5,000 individuals, reported over \$356 million in investigative accomplishments in the form of SSA recoveries, restitution, fines, settlements, judgments and projected savings. OIG auditors issued 97 reports with recommendations identifying over \$1 billion in Federal funds that could be better utilized and \$57 million in questioned costs. Our attorneys reported nearly \$1.25 million in civil monetary penalties and assessments. As a result, OIG returned \$20 for every dollar invested in its operations.

My Vision for Ensuring Efficiency and Integrity at Social Security

Earlier, I referred to the new challenges facing America at home and abroad. Today we are focused on the threat of terrorism and the impact it can have on our everyday lives. Social Security programs face additional challenges and we must take them seriously.

For example, while new technologies afford us greater flexibility in performing routine activities, they also present new opportunities for misuse. As government continues embracing the electronic age and moves closer to paperless processing, we must be certain that appropriate safeguards are in place to verify the authenticity of every transaction. I will work to ensure that Social Security has the proper and complete mechanisms in place to preserve the integrity of all electronic business.

We learned after the September 11th terrorist attacks that Government departments and agencies at every level must be able to communicate and share information timely. At the same time, it is our duty to protect the privacy of every citizen. If I am confirmed as SSA's Inspector General I will make it a top priority to continue developing collaborative relationships with fellow Federal, State and local departments and agencies to foster greater communications and creativity to address both of these issues.

Further, Government faces a crisis of human capital as many of our most talented employees near retirement. Our Strategic Plan includes several measures aimed at developing and maintaining a highly skilled and motivated workforce. This is one of my top priorities. We already have a proud tradition of excellence and I plan to make our organization even better through recruitment programs that attract highly capable candidates representing the mosaic that is America.

Recent enactment of legislation also impacts our organization. For example, the Homeland Security Act of 2002 provides Federal OIGs—including ours—important law enforcement authorities and mandates the creation of an external review process to ensure adequate internal safeguards and management procedures. Another significant piece of legislation is the Social Security Protection Act of 2004. This law provides new safeguards for Social Security and its beneficiaries, such as increased oversight of representative payees, enhanced authority to protect SSA's employees, and provides for the expansion of the Fugitive Felon Program to Title II beneficiaries.

Conclusion

One constant in these times is the Government's duty to tackle the challenges before us and to meet increasing demands with finite resources. Certainly this is true at SSA. Should I be confirmed, I anticipate that SSA OIG will continue to function as a critical law enforcement arm and key management tool for SSA. We will vigorously pursue those who try to take advantage of SSA's programs, operations or beneficiaries, while scrupulously safeguarding the precious resources allocated to us. We will also continue to work with the Agency to identify opportunities to improve efficiency and effectiveness.

Over the years, the OIG and SSA have made great progress in addressing numerous challenges. I look forward to continuing this work. If confirmed, I will concentrate heavily on program integrity issues, SSN misuse and homeland security. Internally, I will ensure that a strong and diverse management team continues to lead an independent OIG into the future.

I look forward to working with Congress and the Commissioner to help SSA meet these and other challenges. Because Social Security plays such an important role in the lives of Americans, I would consider it an honor to serve as the next Inspector General for Social Security. Thank you for this opportunity, and I would be pleased to answer any questions you might have.

A. BIOGRAPHICAL INFORMATION

1. **Name:** Patrick Pearse O'Carroll, Jr.
2. **Position to which nominated:** Inspector General
3. **Date of nomination:** March 9, 2004
4. **Address:** 574 Laurel Road, Riva, MD 21140-1014
5. **Date and place of birth:** 06/27/1950 New York, NY
6. **Marital status:** Elaine C. Schaedel O'Carroll DOM: 6/7/1977
7. **Names and ages of children:** N/A
8. **Education:** (List secondary and higher education, institutions, dates attended, degree received, and date degree granted.)

7/2000 to 8/2000	Harvard University	Certificate, 8/2000
1987 to 6/1988	George Washington Univ.	Master of Forensic Science, 5/89
1968 to 1972	Mt. St. Mary's College	B.S., 5/72
1964 to 1968	Gonzaga High School	Degree, 5/68
9. **Employment record:** (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)

5/1996 to present:
 Social Security Administration, 6401 Security Blvd., Baltimore, MD 21235
 Positions Held: Director HQ Operations, Special Agent in Charge Strategic Enforcement, Special Agent in Charge Congressional Affairs, Assistant Inspector General External Affairs, Deputy Assistant Inspector General for Investigations, Assistant Inspector General for Investigations and Acting Inspector General.

6/1972 to 5/1996:
 U.S. Secret Service, 950 H. Street, N.W., Washington, DC 20223
 Positions Held: Special Agent, Newark NJ Field Office; Special Agent Presidential Protective Division; Special Agent Vice Presidential Protective Division; Special Agent, New York Field Office; Special Agent Candidate Nominee Protective Division, Assistant Special Agent in Charge, Information Resource Management Division; Assistant Special Agent in Charge, Office of Protective Research; Assistant to the Special Agent in Charge, Intelligence Division; and Inspector, Office of Inspection.

10. **Government experience:** (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local government, other than those listed above.)

None

11. **Business relationships:** (List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.)

None

12. **Memberships:** (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)

International Association of Chiefs of Police
Annapolis Yacht Club
Association of Government Accountants
Association of Former Agents U.S. Secret Service

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.**

Republican National Committee

- 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.**

1999	approximately \$100.00 to the Republican National Committee
2003-2004	approximately \$300.00 to the Republican National Committee

14. **Honors and Awards:** (List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals, and any other special recognitions for outstanding service or achievement.)

U.S. Treasury and U.S Secret Service Special Act and Performance Awards (16)
Social Security Commissioner's Awards and Performance Awards (8)

15. **Published writings:** (List the titled, publishers, and dates of all books, articles, reports, or other published materials you have written.)

I have not authored any books. In the early 1990s, I wrote or contributed to several articles in the Police Chief Magazine on employing technology in Law Enforcement. In 1996, I was the Editor of the Department of the Treasury Reinvention Newsletter. I have represented the SSA Office of the Inspector General at several forums on Identity Theft and the Integrity of the Social Security number.

16. **Speeches:** (List all formal speeches you have delivered during the past five years which are on topics relevant to the position for which you have been nominated. Provide the Committee with two copies of each formal speech.)

September 2002 - The United Council on Welfare Fraud Conference – Phoenix, AZ

October 2002 - The Six Nations Benefit Fraud Conference - Australia

September 9, 2003 – Senate Finance Hearing - The Homeland Security and Terrorism Threat from Document Fraud, Identity Theft and SSN Misuse- Wash., DC

September 2003 - The International Association of Credit Card Examiners Conference, Washington, DC

October 2003 - The Six Nations Benefit Fraud Conference - England

March 10, 2004 - Committee on Ways and Means, Subcommittees on Oversight and Social Security - Statement for the Record: The "ITIN" and Social Security Number Misuse Hearing - Wash., D.C.

Please see attachments:

17. **Qualifications:** (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

The Social Security Administration (SSA) provides benefits to the young, the widowed, the aged and the disabled. To accomplish this task, the SSA has extremely complex programs, policies and procedures. The solvency of SSA's Trust Fund is discussed in the media on a daily basis. To oversee the integrity of SSA an understanding of the programs and culture of SSA is crucial. I have spent 8 years learning about this agency.

Throughout my career I have received extensive investigative and management training. My education includes obtaining a Master of Forensic Sciences from the George Washington University and attending the Kennedy School of Government at Harvard

University. My work experience has been garnered from increasingly responsible positions both within the U.S. Secret Service and the SSA Office of the Inspector General (OIG).

Specifically, over the past few years, I have served in several increasingly responsible positions such as the Director of Headquarters Operations, Special Agent In-Charge of Strategic Enforcement, and Assistant Inspector General for External Affairs where I led congressional affairs, quality assurance and professional responsibility. Most significantly, over the past 5 years I have served as the Assistant Inspector General for Investigations where I led investigators and specialists in 64 offices throughout the nation. During my tenure as Assistant Inspector General for Investigations I undertook a number of initiatives to reduce fraud, waste and abuse within SSA's programs and operations. One such example is my work developing SSA's Cooperative Disability Investigations which identify fraud and abuse before Supplemental Security Income benefits are approved and paid. This initiative was instrumental in providing information to General Accounting Office (GAO) that SSA was taking aggressive steps to address fraud, waste and abuse in the Supplemental Security Income program, which in turn aided in the removal of SSI from its High Risk list.

Another example is my leadership efforts in working jointly with agencies such as the Department of Homeland Security, Department of Justice, and Joint Terrorism Taskforces to enhance national security. Internally, following the aftermath of September 11th, I represented the OIG on an SSA-wide executive taskforce enhancing Social Security number (SSN) integrity and identifying and recommending improvements for the enumeration process.

Finally, my current position as Acting Inspector General has provided a great deal of insight concerning the challenges and opportunities facing SSA. As a result, I am frequently called upon to represent and provide key information to decision-makers on areas to improve Social Security integrity.

I look forward to working with Congress and with SSA to improve its programs and operations.

B. FUTURE EMPLOYMENT RELATIONSHIPS

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

I will retain my position with the SSA. I will retain membership in professional and social organizations because they do not conflict with the SSA IG position.

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, provide details.**

I do not.

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 commitments have been made.

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

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.**

None

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.**

None

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 influencing legislation in a non-governmental capacity.

4. **Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Provide the Committee with two copies of any trust or other agreements.)**

I have no conflicts of interest.

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.**

Two copies of the written opinion of the SSA Designated Ethics Official are attached. The Office of Government Ethics has provided Senators Grassley and Collins with a written opinion (see attachments).

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

D. LEGAL AND OTHER 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.**

I have never been the subject of a complaint or been investigated, disciplined, or cited for a breach of ethics for unprofessional conduct before any court, administrative agency, professional association, disciplinary committee, or other professional group.

2. **Have you ever been investigated, arrested, charged, or held by any Federal, State, or other law enforcement authority for a violation of any Federal, State, county or municipal law, regulation, or ordinance, other than a minor traffic offense? If so provide details.**

I have never been investigated, arrested, charged, or held by any Federal, State, or other law enforcement authority for a violation of any Federal, State, or county or municipal law, regulation, or ordinance, other than a minor traffic offense.

3. **Have you ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.**

3/1986: Civil Suit for Medical Malpractice treatment for a Workmen's Compensation injury while employed by the U.S. Secret Service. Court found in favor of the defendant.

10/2001: Civil Suit for Medical damages sustained in a Workmen's Compensation injury while employed by SSA. A motor vehicle accident occurred between a U.S. Government vehicle driven by me and a State of Maryland vehicle. Settlement paid to plaintiff and Department of Labor.

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.**

I have never been convicted of any criminal violation.

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

I can think of no additional information that I believe would be material for consideration in connection with my nomination.

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?**

I am willing to appear and testify before any committee of the Congress.

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

I will be willing to provide any information as is requested by such committees.

Questions for Mr. O'Carroll

From Chairman Grassley:

1. **I have had great interest in insuring that the benefit payments under the Old-Age Survivors and Disability Insurance and SSI programs operate with the utmost integrity and that improper payments be kept to a minimum.**

Can you tell me how important it is to insure that those who enter the disability rolls are eligible in the first place? In other words, don't we need to do a better job making sure that no one gets disability who should not get disability in the first place?

Answer: The OIG continues to focus its work on ensuring that improper payments are kept to a minimum. Since SSA is responsible for issuing over \$500 billion in timely benefit payments under the OASDI and SSI program to over 50 million individuals, SSA is at-risk of making significant improper payments. Even the slightest error in the overall process can result in millions of dollars in over- or underpayments. In partnership with SSA, we have opened 18 Cooperative Disability Investigations (CDI) units in 17 States to ensure only those individuals who are disabled in the first place get put on the rolls; and once on the rolls that they continue to be disabled. Since the program started, CDI investigative results were used to support over 3,900 denials or terminations. Consequently, SSA saved approximately \$230 million. We are also in the process of conducting a review of 1,532 cases to quantify the amount of undetected overpayments in SSA's disability programs. In conducting our review, we have identified four diagnostic codes that we believe are the most susceptible to fraud on the front end. We expect to issue this report and other reports to improve SSA's efforts to identify, prevent, and recover improper payments in FY 2005.

2. **Over the course of the last few months, we have exchanged a number of letters with OMB regarding OMB's guidance implementing the Improper Payments and Information Act of 2002. Our concern centered around the fact that OMB's recent guidance would result in certain SSA programs NOT reporting the same level of improper payments that they reported in the recent the past.**

Can you tell me your position on OMB's guidance and whether or not it will result in a higher or lower level of improper payments within SSA programs being reported?

Under Public Law 107-300 (the Improper Payments Information Act of 2002), OMB was given authority to set guidance on how agencies calculate and report improper payments. OMB issued specific guidance to SSA on the Agency's calculation and reporting of improper payments. This guidance also specifically requested that OMB continue to receive the same information reported in the past.

Based on our review of OMB's guidance and our conversations with SSA officials, we do not expect the Agency's reported level of improper payments to significantly change.

OMB defined avoidable improper payments as those payments that are under the agencies control and unavoidable improper payments are those payments outside the Agency's control and are a cost of doing business. Long term consideration of this area should also include solutions that address unavoidable improper payments.

From Senator Baucus:

1. REDUCING FAKE DRIVER'S LICENSES

Many individuals have been creating fake driver's licenses. This allows them to execute criminal activity, either by creating a completely fictitious identity or by stealing someone else's identity. This problem has taken on even more serious implications because terrorists have been using these methods to assume alternative identities. At a Senate Finance Committee hearing last year, GAO investigators reported that by using fictitious names and fraudulent documents, they were able to obtain driver's licenses in seven of eight states.

To combat these problems, the American Association of Motor Vehicle Administrators (AAMVA) has made two legislative proposals for enactment this year

The first proposal is the Interstate Digital Image Exchange program, now being piloted in five states, that allows states to share photographs of driver's license applicants, so that licensing agencies can be sure that the person applying is who he says he is. Of course, such a program should only be implemented if there is a prohibition against use of this program as a marketing or advertising tool. Last year, the Transportation-Treasury Subcommittee on Appropriations portion of the Omnibus Conference Report provided funding to support this program. In FY05, a request is pending for the additional \$2.527 million needed to complete the program on a nationwide basis, because the program only works when all states are participating.

The second proposal is the Commercial Driver's License Information System (CDLIS). It is a critical tool States can use to keep individuals from obtaining a fake or fraudulent license. While CDLIS is very effective, it was developed in the late 1980's and relies on outdated hardware and software. There is a need to modernize CDLIS and permit it to grow and evolve easily as volume grows and requirements change. Of course, the modernization of this program should only be undertaken if there is a commitment to protect privacy. The House-passed highway bill, TEA-LU (HR3550), contains provisions to authorize \$30 million over the next five years for a CDLIS upgrade. The Senate-passed bill contains no

such provision. The conference committee is now beginning its deliberations on a conference report.

Do you think that the Transportation-Treasury Subcommittee should provide the \$2.257 million for completing the Interstate Digital Image Exchange Program, and that the conference report on the Highway bill should contain the authorization of \$30 million over five years for the modernization of the Commercial Driver's License Information System?

Answer: We believe both projects would help to reduce the circulation of fraudulent documentation and occurrences of identity theft. While we cannot speak to the particular costs or comment on the latest pilot results of the Interstate Digital Image Exchange Program, such a project should make the process of applicant identification much easier. In terms of the Commercial Driver's License Information System (CDLIS), we believe that inter-State sharing of commercial driver's license information is wise in that it protects both the Nation's motorways as well as enhances Homeland Security. We also support efforts to upgrade the CDLIS in order to keep it current with evolving technologies.

FOLLOW-UP: Last year, the AAMVA proposed a program called DRIVeRS to create an on-line database for *non-commercial* driver's licenses for all states. This would prevent a criminal from using a counterfeit driver's license from one state to get a genuine driver's license from another state. It could also be used by airline ticket counter clerks and others. Of course, this program should only be undertaken if there is a commitment to protect privacy. The proposal has been widely acclaimed. It would cost \$78 million over 3 years. However, some people on the Hill have suggested that \$78 million over three years is too high a cost. As a result, AAMVA has limited itself this year to proposing just the program to modernize the *commercial* driver's license database for all states (CDLIS), including a pilot for extending this project to cover *non-commercial* driver's licenses.

Do you believe that we should enact the DRIVeRS program now and that the cost of this program is a tiny price to pay for providing this protection from terrorists?

Answer: We believe that such efforts to reduce identity theft and misuse among non-commercials drivers is a worthwhile endeavor. Fraudulent documents on our highways, and particularly in our airports, are a serious issue that should be addressed. While we cannot specifically address the total costs associated with this proposal, we concur that extra weight should be given towards drivers license improvements that enhance homeland security.

2. SUBJECTIVITY OF DISABILITY CASES

Mr. O'Carroll, I understand that soon your office will be releasing a report in which you'll try to estimate the amount of fraud that may be occurring in the two disability programs at SSA. As you know, the process of determining whether or not an applicant for disability benefits is truly disabled often can be highly complex and involves a certain level of subjectivity. It is also probably true, however, that individuals with a clear intent to fraudulently obtain disability benefits will lie or misrepresent their abilities and medical condition.

What assurances can you make to the Committee that your report will only label cases as fraudulent if there is a clear evidence that the individual seeking benefits lied or attempted to deceive the Social Security Administration and will not label as fraudulent those instances where the determination of disability maybe a highly subjective determination?

Answer: We realize that determining whether someone is truly disabled is a highly complex process. This is why we are coordinating our reviews with SSA and having the Agency conduct medical continuing disability review (CDRs) on those cases we believe may not be disabled. We will rely on SSA's decision as to whether or not a beneficiary is disabled—based on their expert review of the medical information.

The goal of our review is to identify those who clearly intended to obtain disability benefits through fraudulent means. After the CDR is completed, we will review the case further and develop any potential signs of fraud. As shown in our most recent semiannual report to Congress, the OIG is very experienced in pursuing fraud investigations and any potential cases we develop in our current review will be treated accordingly.

3. SOCIAL SECURITY NUMBERS AND ID THEFT

Mr. O'Carroll, in testimony before the Senate Finance Committee in September of last year you declared "the SSN has become a national identifier." You also stated that legislation was needed to limit the use and display of the SSN in public and private sectors in order to reduce identify theft.

As far as identify theft and Social Security numbers are concerned, could it be that one main problem is that businesses and banks treat Social Security numbers like they are a secret, secure password – when in fact they are not. No business should use a Social Security number as a password any more than they would use a person's name or phone number. I note that a lot of banks and other e-commerce companies now ask customers several "security questions" and ask them to provide the answers so they can verify their identity for future transactions.

Do you think it would still be necessary to enact legislation to restrict SSNs if they were not treated as secure passwords? Should the Treasury department and other agencies urge banks and other businesses not to treat the SSN as a secure password?

Answer: While the OIG prefers the SSN not be used beyond its original purpose, to track earnings and pay Social Security benefits, we understand that it has become a national identifier. Nonetheless, the more it is propagated for use beyond its original intention, the greater the chances it can be compromised. With this in mind, we do not believe the SSN should be used by businesses as a "password" for gaining access to such private information. Here we define "password" as a tool for accessing certain information about an individual through on-line web sites or through automated telephone services. Instead, businesses should be expected to create and issue their own identification numbers to be used as secure passwords. In addition, we believe legislation is necessary to mandate this change, since without it businesses would have little incentive to cease using the readily available SSN as a password in their systems. This is not to say the SSN itself should be eliminated from business transactions, since the SSN is also used by business as a legitimate part of their credit and tax reporting procedures. Furthermore, even if the SSN is removed as a password, we expect the SSN will remain a useful identifier related to an individual, such as his/her name and/or telephone number.

