

**Hearing on the Status of Internal Revenue Service's  
Review of Taxpayer Targeting Practices**

---

HEARING  
BEFORE THE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED THIRTEENTH CONGRESS  
FIRST SESSION

---

**June 27, 2013**

---

SERIAL 113-FC10

---

Printed for the use of the Committee on Ways and Means

**COMMITTEE ON WAYS AND MEANS**DAVE CAMP, Michigan, *Chairman*

SAM JOHNSON, Texas  
KEVIN BRADY, Texas  
PAUL RYAN, Wisconsin  
DEVIN NUNES, California  
PATRICK J. TIBERI, Ohio  
DAVID G. REICHERT, Washington  
CHARLES W. BOUSTANY, JR.,  
Louisiana  
PETER J. ROSKAM, Illinois  
JIM GERLACH, Pennsylvania  
TOM PRICE, Georgia  
VERN BUCHANAN, Florida  
ADRIAN SMITH, Nebraska  
AARON SCHOCK, Illinois  
LYNN JENKINS, Kansas  
ERIK PAULSEN, Minnesota  
KENNY MARCHANT, Texas  
DIANE BLACK, Tennessee  
TOM REED, New York  
TODD YOUNG, Indiana  
MIKE KELLY, Pennsylvania  
TIM GRIFFIN, Arkansas  
JIM RENACCI, Ohio

SANDER M. LEVIN, Michigan  
CHARLES B. RANGEL, New York  
JIM MCDERMOTT, Washington  
JOHN LEWIS, Georgia  
RICHARD E. NEAL, Massachusetts  
XAVIER BECERRA, California  
LLOYD DOGETT, Texas  
MIKE THOMPSON, California  
JOHN B. LARSON, Connecticut  
EARL BLUMENAUER, Oregon  
RON KIND, Wisconsin  
BILL PASCRELL, JR., New Jersey  
JOSEPH CROWLEY, New York  
ALLYSON SCHWARTZ, Pennsylvania  
DANNY DAVIS, Illinois  
LINDA SÁNCHEZ, California

JENNIFER M. SAFAVIAN, *Staff Director and General Counsel*JANICE MAYS, *Minority Chief Counsel*

---

## CONTENTS

---

[Advisory of June 27, 2013 announcing the hearing](#)

### **WITNESSES**

Mr. Daniel Werfel  
Principal Deputy Commissioner and Deputy Commissioner for Services and  
Enforcement, Internal Revenue Service

Witness Statement [[PDF](#)]

## Hearing on the Status of Internal Revenue Service's

### Review of Taxpayer Targeting Practices

U.S. House of Representatives,  
Committee on Ways and Means,  
Washington, D.C.

---

The committee met, pursuant to call, at 10:01 a.m., in Room 1100, Longworth House Office Building, Hon. Dave Camp [chairman of the committee] presiding.

#### [Advisory](#)

---

Chairman Camp. The committee will come to order.

Good morning.

It has been 6 weeks since the IRS first revealed it was purposefully targeting conservative-leaning organizations, and this week additional IRS documents revealed that the term "progressive," along with others, were also included on the "Be on the Lookout" list, or the BOLO.

And I want to make one thing clear. No taxpayer, regardless of political affiliation, should be unfairly targeted. It is wrong, and this committee is working to ensure that it will never happen again.

The committee has welcomed all groups that feel they have been targeted for extra scrutiny to come forward, and I urge them to do so. So far, the evidence only shows conservatives being systematically targeted by the IRS, not just flagged through the BOLO, but actually targeted. These Americans consistently had their applications delayed for nearly 3 years, were asked intrusive and inappropriate questions, had their donor information leaked, and were even threatened by the IRS with additional taxes.

But, as I have long said, we are in the early stages of this investigation, and, as we gather the facts, we will follow those facts wherever they lead. Again, if there are any additional groups of any political affiliation, we urge them to come forward.

From what we have already learned, it is clear that the IRS is a broken agency that needs to answer to the American people.

Mr. Werfel, in the interest of accountability and at the discretion of Treasury Secretary Lew, you spearheaded a 30-day review of the practice of discriminating against conservative groups.

Unfortunately, while I am aware this is an initial report, it fails to deliver the accountability the American people deserve. This report doesn't answer even the most basic significant questions: Who started this

practice? Why has it been allowed to continue for so long? How widespread was it? In fact, this report suggests that you haven't even asked anyone those questions.

Additionally, the report fails to address some of the most egregious offenses by the IRS. I am specifically talking about the intentional leaking of confidential taxpayer information and the IRS threatening conservative donors with additional taxes.

The review notes that it is important that the Inspector General continues to identify inappropriate actions, but where is the internal oversight? Where are the checks to prevent this behavior in the first place? How will the IRS learn from these inexcusable actions and provide the American taxpayer with real proof and evidence that it will not happen again?

It will be necessary to provide concrete reforms and assurances to begin rebuilding the trust this agency has lost with the American people.

A glaring recommendation in this report is that Congress fulfill the agency's budget request of an additional billion dollars. And, frankly, it is insulting to taxpayers that the IRS would ask for an additional billion dollars right after we find out that the IRS was targeting taxpayers for their beliefs, after they spent millions of taxpayer dollars on frivolous conferences, produced completely useless videos, and put expensive dinners and alcohol on IRS credit cards.

And, Mr. Werfel, let me clear, until the IRS proves that it can responsibly manage its current funds, the IRS will not see one more dime in taxpayer funding.

We need real reforms, and they must be implemented so the American people can have a restored faith that they have a government that works for them, not against them. That begins with instituting long-term and meaningful changes -- changes to both how the agency operates and to the Tax Code that the agency is trying to enforce.

And, as I have stated before, I often hear from constituents in Michigan about their fear of being audited by the IRS. That fear used to stem from the fact that the Tax Code was so complicated, nobody really knew what was in it or if they had filed their taxes correctly. Even when people paid someone else to do their taxes, they would sign their return not really knowing what was in it and hoping the preparer got it right. And that is something this committee must and will fix.

However, today, Americans fear an audit not just because the Tax Code is too complex but because we have an agency that is out of control. We have managers in Washington sitting on cases for years, directing intrusive and inappropriate questions to be asked.

And after a month-long internal review, what you tell this committee is that a few people have been removed from their old jobs, but you cannot even assure us that they have been removed from the agency. It is my understanding that they either continue to be paid or are receiving full retirement benefits. And, on top of those salaries and benefits, those employees have received over a quarter of a million dollars in bonuses over the last few years. And you have not identified any structural changes within the IRS that would prevent these abuses of power from happening again.

If there is anything this report shows, it is just how much more work must be done. Congress will continue the investigation into the IRS's actions and get to the bottom of this so we can ensure that no American is targeted again.

And, with that, I yield to Mr. Levin for the purposes of his opening statement.

Mr. Levin. Thank you, Mr. Werfel.

I will go over my opening statement in just a moment. I want to urge you -- you have heard the opening statement of the chairman. I know you mostly have been kind of a technician all your years in both the Bush administration and in this administration. I hope, though, that you will, if I might suggest, respond very vigorously when statements are made. I hope you will actively report on what you have done during your first 30 days.

Where mistakes have been made by the Internal Revenue Service, we on the Democratic side have been very, very clear: When inappropriate criteria were used, we were among the first to say that those who were in charge in the IRS should be relieved of their duties.

So I hope you will respond very actively and vigorously to all the questions. I think we need to get the facts and not innuendos. We are here today to learn about the corrective action that the IRS has taken to address mismanagement and processing of tax-exempt applications.

So, Mr. Werfel, welcome to the Ways and Means Committee. I am not sure how warm it is, but welcome.

I am glad to see in your 30-day report that you have instituted management changes that span the entire IRS management chain. It is needed. I see from your report that these changes reach into the Exempt Organization Division -- indeed, is necessary -- and the team responsible for determinations on applications for tax-exempt status.

We are also interested in your recommendations for obtaining greater effectiveness within the IRS with respect to better early warning systems and risk management. We look forward to hearing your testimony on your new enterprise risk management program, which I understand will improve IRS accountability and responsiveness to stakeholders, including this Congress.

As your report makes clear, there was clear mismanagement on the part of the IRS Exempt Organizations Division in processing these tax-exemption applications. The additional assessment and plan of action appear to be a solid roadmap to addressing the problems. And we encourage you, as I said at the beginning, to actively, to vigorously, to completely pursuing this plan.

But for our committee, which launched this investigation on a bipartisan basis, the backdrop for today's hearing is the troubling new information that has come to light about the report issued by the Treasury Inspector General of Tax Administration.

This week, we learned for the first time the three key items: One, the screening list used by the IRS included the term "progressives"; two, progressive groups were among the 298 applications that TIGTA reviewed in their audit and received heightened scrutiny; and, three, the Inspector General did not research how the term "progressives" was added to the screening lists or how those cases were handled by a different group of specialists in the IRS.

The failure of the I.G.'s audit to acknowledge these facts is a fundamental flaw in the foundation of the investigation and the public's perception of this issue. I wrote to the I.G. and asked him to explain these omissions.

And all committee Democrats have asked you, Mr. Chairman, today that you ask Mr. George to return to the committee to provide the appropriate context for his report and answer questions under oath regarding all of these matters. Our committee, in its oversight role, has an obligation to fully understand the manner in which the I.G. conducted his audit and at what direction.

Deeply troubling is that, when asked about the new information that has come to light, the Treasury I.G. Office initially said in media reports, and I quote, that "our audit report answered questions it was asked to address," end of quote, and that the House Oversight Committee chairman, Darrell Issa, had specifically

requested that investigators, in quotes, "narrowly focus on Tea Party organizations." We asked TIGTA about this in the letter, and he responded, in quotes, that "many of the press reports are not accurate."

If these or some of the reports were accurate, TIGTA's initial explanation of the scope of the audit is inconsistent with the description of the I.G.'s audit work in the 2013 audit plan and the stated objective on the first page of the May 14th, 2013, audit report. The stated objective was, and I quote, "to determine whether allegations were founded that the IRS, one, targeted specific groups applying for tax-exempt status; two, delayed processing of targeted groups' applications; and, three, requested unnecessary information from targeted groups."

The I.G.'s failure to be forthcoming in the audit and at congressional hearings, even when asked directly if there was a screening list for "progressive" and whether progressive groups were included among the 298 applications reviewed by TIGTA, has contributed to the distortion of the entire investigation, including use of innuendo and totally unsubstantiated assertions of White House involvement.

Democrats have condemned the singling out of "Tea Party" by name. I hope our colleagues on the Republican side of the aisle will now join us in condemning the use of the term "progressives" on the screening lists and the failure of the I.G. to be forthcoming with this and other congressional committees.

We have also been supportive of letting the facts lead where they may. None of us, including the Acting IRS Commissioner, can describe how an application was processed once it was screened. I caution my colleagues from jumping to conclusions until we know all the facts. Searching for the facts is the only way we are going to get back on the course that I hope is our mutual goal: the fixing of the problems, all of the problems, at the IRS and restoring the trust of the American people.

Thank you, Mr. Chairman.

Chairman Camp. Thank you, Mr. Levin.

Chairman Camp. Now I would like to introduce our witness, Mr. Daniel Werfel, Principal Deputy Commissioner of the Internal Revenue Service.

Thank you, Mr. Werfel, for being with us today. The committee has received your report, and it will be made part of the formal hearing record. You will have 5 minutes for your oral remarks.

You are now recognized.

Mr. Werfel. Chairman Camp, Ranking Member Levin, and members of the committee, thank you for the opportunity to appear before you today to discuss the progress we have made thus far in charting a path forward for the IRS and what we hope to accomplish in the future.

The report we released on Monday describes a number of important findings, aggressive actions, and next steps for the IRS. The problems with the 501(c)(4) application process that were uncovered by the Treasury Inspector General for Tax Administration have created significant concerns for taxpayers, and it is incumbent upon us to take swift action to ensure accountability, fix the problems that occurred, and thoroughly examine other aspects of IRS operations.

Over the past month, an ongoing review of the events described in the TIGTA report has shed further light on the management failures that occurred within the IRS and the causes of those failures. There was insufficient action by IRS leaders to identify, prevent, address, and disclose the problems that emerged with the review of applications for tax-exempt status. Our report outlines management deficiencies and the steps that must be taken to correct them.

Importantly, the report does not provide a complete and final set of answers. Instead, it offers an initial set of conclusions and action steps, along with an explanation of the additional reviews and investigations under way.

While fact-gathering is still ongoing, we have not found evidence of intentional wrongdoing by anyone at the IRS or involvement in these matters by anyone outside of the IRS. Furthermore, there is no current evidence of the use of inappropriate screeners or other types of criteria in other IRS operations beyond those discussed in the I.G. report.

We recognize, however, that there is public concern regarding the criteria used for applications for tax-exempt status, and more needs to be done to evaluate our screening criteria and procedures. We will therefore establish a review process by which screening criteria and procedures across the IRS will be periodically assessed to safeguard against any risks of inappropriate criteria.

In addition to this important review, I also want to briefly mention some of the actions that we have taken and will take to address the problems we have found.

First, we have installed new leadership at all five levels of the IRS senior executive managerial chain that had responsibility over the activities identified in the I.G. report. In addition, we have empaneled an Accountability Review Board to provide recommendations within 60 days, and later if needed, on additional personnel actions that should be taken.

Next, immediately upon learning that "Be on the Lookout," or BOLO, lists with inappropriate criteria were still in use, we suspended the use of any such lists in the application process for tax-exempt status.

Next, we have established a new voluntary process for certain taxpayers who have been in our backlog for more than 120 days to gain expedited approval to operate as a 501(c)(4) tax-exempt entity. This is a self-certification process which allows them a streamlined path to tax-exempt status if they agree they will operate within defined limits and thresholds of political and social welfare activities.

Next, we will establish an enterprise risk management program across the IRS to provide a common framework for capturing, reporting, and addressing risk. This is intended to ensure that such information is brought to the attention of the IRS Commissioner and other IRS leaders and external stakeholders in a timelier manner.

Next, we will initiate additional internal and external education and outreach about the role of the national taxpayer advocate in assisting taxpayers in resolving problems with the IRS.

I also want to point out that our pursuit of broad-based reforms in the IRS does not mean that we believe the specific challenges and concerns identified in the I.G. report on 501(c)(4)s are necessarily present in other parts of the organization. In fact, I believe that any comprehensive review of IRS operations must recognize the many critical successes that the IRS has had in carrying out its mission over the last several years.

The IRS is committed to correcting its mistakes, holding individuals accountable as appropriate, and establishing control elements that will help us mitigate the risks we face. The employees of the IRS are committed to our mission and to operating with integrity and fairness to all.

The IRS serves a vital purpose for this country, and we need to earn and maintain the trust of the American people in order to accomplish our mission. We are firmly moving in that direction. And we will continue to report on our progress on a regular basis as we fulfill our commitments.

Mr. Chairman, Ranking Member Levin, that concludes my statement. I would be happy to answer your questions.

Chairman Camp. Well, thank you very much, Mr. Werfel.

Chairman Camp. For the purposes of preparing your report, did you speak to former Commissioner Doug Shulman?

Mr. Werfel. I did not.

Chairman Camp. Did you speak to former Acting Commissioner Steve Miller?

Mr. Werfel. I did not.

Chairman Camp. Did you talk with Joseph Grant, the former Deputy Commissioner for TEGE?

Mr. Werfel. No, I did not.

Chairman Camp. Did you talk with Chief Counsel William Wilkins?

Mr. Werfel. Yes.

Chairman Camp. What were the basic summaries of those conversations?

Mr. Werfel. As a first matter, there were three things I set out to do, which are in the report: first, understand where the wrongdoing was so I can hold people accountable; second, understand where the management failures and process mistakes are in the Exempt Organizations Unit so we can fix them; and, third, a broader understanding of IRS risks and operations.

And I spoke to many people within the IRS. In fact, my whole senior leadership team engaged in an ongoing series of discussions. And Bill Wilkins is one of the senior leaders within IRS.

Chairman Camp. Did you talk to Sarah Hall Ingram, the former Deputy Commissioner?

Mr. Werfel. I have spoken to Sarah Hall Ingram, yes.

Chairman Camp. As you prepared the report?

Mr. Werfel. I --

Chairman Camp. For the purposes of preparing the report, did you speak to her?

Mr. Werfel. I am not sure how to answer that question. I spoke to her as part of my overall understanding of the situation on the ground with the IRS. So, yes, I guess they all connect.

Chairman Camp. Okay. And did you speak with Lois Lerner, the former Director of Exempt Organizations?

Mr. Werfel. I did not.

Chairman Camp. Well, I would say that your initial conclusion that the IRS found no evidence of intentional wrongdoing by IRS personnel, given the number of key players that you did not talk to, I think is not necessarily an initial conclusion, but an incomplete one. And I really don't see how you were able to reach that.

But we know from our investigation that in the summer of 2011 Lois Lerner directed the Cincinnati office to change the words "Tea Party" label to "advocacy groups." Do you think this was an intentional attempt to cover up the targeting?

Mr. Werfel. I don't know -- I don't know the answer to that question. I think more work needs to be done to evaluate the circumstances.

Chairman Camp. Again, I find it difficult, then, to make the conclusion that no evidence of intentional wrongdoing by IRS personnel was done. But --

Mr. Werfel. What I am suggesting is there is no evidence in the record to suggest that there was an intentional coverup of any kind.

Chairman Camp. But you didn't even speak to her, so --

Mr. Werfel. But each time that I have made the point, each time that I have made --

Chairman Camp. Mr. Werfel, I control the time. And my question is, after she directed this change, Cincinnati intentionally went back to targeting Tea Party groups. Do you know who was responsible for this?

Mr. Werfel. Do I know who was -- well, I challenge the premise of your question.

Chairman Camp. After the change was made to "advocacy groups," the Cincinnati office went back to targeting Tea Party groups. Do you know who was responsible for that activity beginning again?

Mr. Werfel. We are looking into the facts and circumstances that arose. There are a lot of questions to be asked and answered that haven't been asked and answered yet. And I am not going to reach a definitive conclusion before the investigation is complete.

Chairman Camp. If you don't know, it is fine to say you don't know.

Mr. Werfel. Yes.

Chairman Camp. I think the answer is you don't know.

Do you know who in Washington, D.C., directed the lawyers at the Exempt Organizations Technical Office to hold up the Tea Party applications?

Mr. Werfel. I do not know the answer to that question.

Chairman Camp. Is the IRS interviewing employees who were directly involved with the Tea Party discrimination at this point?

Mr. Werfel. Right now, the IRS is relying on the Justice Department and the Inspector General to conduct those interviews. We are working closely with them. But it is critical that, because there is an ongoing criminal investigation, that we do not step in front of the Justice Department and the I.G. at this time.

Chairman Camp. Is the IRS conducting any internal document review outside of complying with the requests that Congress has been sending the agency?

Mr. Werfel. We are conducting a very thorough document review at this time.

Chairman Camp. Your report also states that there is no evidence of the use of inappropriate criteria in other IRS business unit operations. And how did you reach that conclusion? Are you interviewing employees in these units and requesting information, or is there --

Mr. Werfel. Yes, there is -- the major divisions that are involved in these types of activities of dealing directly with taxpayer issues are our small business section; our large business section; TEGE, which is the subject of the audit report; and Wage and Investment.

I have met with the leaders of those operating divisions. We have talked about the issues in the I.G. report that dealt with the Exempt Organizations Unit. I have asked them to look internally and do their own assessments of any specific evidence they may have of similar problems or challenges in their areas. They have determined that there are not -- there is some good reason for that.

And, in particular, I think it is important to point out that in this area of tax-exempt review, it is one of the very few areas within the IRS where the nature of political activity is relevant to any determination that we would make on eligibility or review. And so the other areas of the IRS normally don't involve themselves in political activity.

All this said, we understand and mean no -- I am, like all of you, very concerned about what is in this I.G. report. It is a very significant concern. We are hearing from taxpayers that they are concerned. And that is why, out of an abundance of caution and because it is important to reassure the taxpayers, we are going to review all of our criteria across the entire IRS and report back to you on our findings.

Chairman Camp. So I think this leads into the statement in the report that the IRS is digging deeper into the evidence -- this is a quote -- "to determine if there are instances of wrongdoing or inappropriate conduct beyond the mismanagement identified in the report."

Mr. Werfel. Absolutely.

Chairman Camp. So that is beyond the Exempt Organizations Division. In that process, are you reviewing documents requested by Congress, or is there some other internal review in addition to that?

Mr. Werfel. I think there is a lot of overlap, Mr. Chairman. You have asked, this committee and other committees have asked for an enormous footprint of documents, which is very justifiable. And we are in the process of producing them and have produced a lot of documents for this committee and others.

We, as part of our efforts to get to the bottom of this, are looking at a very similar footprint of documents in order to make sure that we understand the causes of these circumstances so that we can take the appropriate accountability steps and corrective action.

Chairman Camp. Well, I would note we are just beginning to get emails. And so it is not as if we have all the documents at our disposal yet that we are going to need to review.

But I have another line of questioning. You acknowledged and your report acknowledges that the IRS inappropriately targeted Tea Party groups. And since then, there have been questions raised about whether the IRS was inappropriately targeting progressive groups.

And I would like to read to you the Treasury Inspector General's answer to this question, which the minority was kind enough to share with me this morning. Quote, "We reviewed all cases that the IRS identified as potential political cases and did not limit our audit to allegations related to the Tea Party," end quote. So I would like to repeat that. TIGTA did not limit its audit to just the Tea Party.

And let me just read another excerpt from their answer, their written answer. Quote, "From our audit work, we did not find evidence that progressives were used by the IRS to select potential political cases during the 2010 to 2012 time frame. We found no indication in any materials that 'progressives' was a term used to refer cases for scrutiny for political campaign intervention."

So we have conducted interviews with some of the key Cincinnati IRS employees, and they have confirmed that to be true. Does any part of your 30-day report contradict that recent letter and finding by the Inspector General?

Mr. Werfel. No, I don't think any part of our report contradicts it. What our report determines is that there is diversity in the types of political organizations that were accounted for in the BOLO list. And that is all that is in our report.

Chairman Camp. And the BOLO list is a flagging. And only the conservative Tea Party groups were referred for extra scrutiny, isn't that correct, at this point? That is what we know so far?

Mr. Werfel. I think that is what the evidence points to so far. But, as you have mentioned in your opening remarks, we are in the early stages of this, and there is more investigation that needs to be done to answer that very question.

Chairman Camp. Yes. And the Inspector General is doing a more thorough investigation. But at least in the recent letter he sent us, he said he found no evidence to date. And your report, as you have responded, doesn't contradict that.

Chairman Camp. And thank you. I yield to Mr. Levin.

Mr. Levin. You know, to try to set the stage for some bipartisanship, just quickly, where did you start your government service?

Mr. Werfel. I started my government service in the Office of Management and Budget. I was at the Justice Department for some time. But at the time that this administration came, I was a senior leader in OMB and serving under President Bush.

Mr. Levin. Your report states, "We have not found involvement in these matters," talking about the criteria, "by anyone outside of the IRS." Is that correct?

Mr. Werfel. That is correct.

Mr. Levin. And you stand by that?

Mr. Werfel. Yes, I stand by it. I think the statement in the report is appropriately caveated with the point that there are ongoing reviews and investigations that are necessary. But, at this time, taxpayers and the public have questions, and the answer to the question, have you found any evidence of intentional wrongdoing, our answer is, no, we have not.

Mr. Levin. Your report also says -- let me just ask you, in terms of the involvement outside of the IRS, have you found any involvement by anybody in the White House?

Mr. Werfel. No, we have not.

Mr. Levin. There has been reference here to the I.G.'s investigation. And I want everybody to understand, in the letter that was sent there was use -- there was a BOLO that had the word "progressives" on it. Is that correct?

Mr. Werfel. Yes, that is correct.

Mr. Levin. And you have asked that that BOLO and all others no longer be used?

Mr. Werfel. That is correct. We suspended the use of all BOLO lists.

Mr. Levin. The I.G. letter also indicates -- and all of this was indicated for the first time -- that there was a number of groups, progressives, involved in the BOLO that were sent to a different group within the IRS, and the I.G. did not talk with anybody regarding what happened to those. So the notion that the selecting out was only as to "Tea Party" and was not as to "progressives" is simply incorrect.

And when the I.G. was sitting in your chair, he failed to indicate who the others were. And when asked specifically if it included progressive groups in another committee or subcommittee hearing, he wasn't forthright. So I think he should come back and talk to us and have him asked questions.

Because, in terms of the selecting-out process, clearly it involved progressive groups as well as Tea Party groups. That was clear from the pie chart in his report, but he never delineated who the others were, even as later asked. And if he had come forth with that information, I think it would have undercut a lot of the wild innuendos that talk about a White House enemies list, that talk about a culture of cover-up.

So we want him back. I hope, Mr. Chairman, you will have him back.

And I think, Mr. Werfel, we know that you will encourage the digging out of all the facts as fully as possible as you proceed. Do you give us that pledge?

Mr. Werfel. I do give you that pledge, absolutely.

Mr. Levin. Thank you.

Mr. Werfel. Actually, Mr. Chairman, there is a question that I answered from you that I think warrants further clarification --

Chairman Camp. Fine.

Mr. Werfel. -- if that is okay?

Chairman Camp. Yes.

Mr. Werfel. And I don't remember your exact question, but I want to make sure that I get out early in this hearing so that we have that basis of information to guide the questions, is that where we are right now in our fact-gathering -- and, as you said, it is early -- we have evidence, obviously, of diversity of political labels used in the BOLO lists.

Chairman Camp. Yes.

Mr. Werfel. We have also -- as another example of where we have diversity of political labels, this week we are sending out letters to taxpayers that have been in our backlog for more than 120 days to offer them this option, this fast-track option.

Chairman Camp. Yes.

Mr. Werfel. There is diversity of political labels in the groups that are getting this letter.

And, also, it is our understanding, as we review the facts, that there is a diversity of political labels in those organizations that were put in through process for further review.

The challenge that I have in going deeper than that is as follows. To go deeper into those facts could end up with sensitive taxpayer information under 6103. The other challenge is that, in looking at the diversity of groups, it is not always clear where they stand on the political spectrum, and, frankly, I don't want to know where they stand on the political spectrum. I want the IRS to be in the business of just detecting, because we have to under the law and regulation, the extent of political activity, not knowing the type of politics.

But going back to your earlier question, I didn't want to leave the committee with the impression that we are not seeing diversity of political labels across the spectrum. What I am suggesting is more analysis, significant more analysis, is needed before we reach more conclusions about what that means in terms of an IRS failure or an IRS issue.

Chairman Camp. Well, that is why I find it perplexing that you would conclude there is no evidence of intentional wrongdoing by the IRS, when the Inspector General says that he reviewed not only just Tea Party cases but others and, in his letter dated June 26th, says that only Tea Party cases at this point were flagged and sent to another review. There were no progressive cases sent to another review.

Mr. Levin. To a different review.

Chairman Camp. Please don't interrupt me, Mr. Levin.

Mr. Levin. Different review.

Chairman Camp. And so I think that is an important point. And that is why we need the full inspector general letter in the record.

And I think that you might have called these "initial conclusions," and I think "initial" probably should be emphasized. I would call them incomplete, given that we still have more information.

With that, I will recognize Mr. Johnson.

Mr. Johnson. Thank you, Mr. Chairman.

Mr. Werfel, the American people want, need, and deserve to know the truth, and I hope we get it.

Mr. Werfel, back in my district, it appears the Allen Area Patriots have also been a target of the IRS. The bottom line is that the IRS has been used as a political weapon. And that is just outrageous.

Mr. Werfel, instead of targeting Americans because of their belief, why doesn't the IRS target fraud and abuse that is costing hardworking, law-abiding American taxpayers billions of dollars?

Mr. Werfel, I would like to play a short video clip on an issue that I have been working on for some time now. The clip is from a WTHR TV investigative report. And this isn't a single case.

[Video shown.]

Mr. Johnson. Over the years, the I.G. has sounded the alarm about fraud and abuse with the \$1,000 refundable Child Tax Credit. Do you agree this is a problem, yes or no?

Mr. Werfel. Yes, I certainly agree that our --

Mr. Johnson. Okay. That is good.

Isn't it true that one of the rules to claim the Child Tax Credit is that the child has to live with the tax filer for more than half of the year, yes or no?

Mr. Werfel. That is difficult to confirm, that eligibility point, I agree.

Mr. Johnson. Why, then, isn't the IRS enforcing this residency rule? Mr. Werfel, I hope you will work with us to address this. I have a bill that would help put a stop to this. In fact, the bill would save taxpayers \$24 billion.

I want to also ask you about another scandal, and that is the IRS management of the Individual Taxpayer Identification Number program, or ITIN. Again, why doesn't the IRS target fraud and abuse instead of Americans for their beliefs?

Last summer, the I.G. issued a damning report in which it found that IRS management discouraged IRS workers from detecting fraudulent applications. The I.G.'s report led me to call on the then-Commissioner Shulman to resign.

On the screen, I have Figure 6 from the 2012 I.G. report showing most frequently used addresses for ITIN tax refunds. As you can see, nearly 24,000 tax refunds, totaling \$46.4 million, were issued to the same address in Atlanta, Georgia. Bottom line, these ITINs are costing taxpayers dearly because they can be used to fraudulently get tax refunds.

And, last month, the I.G. issued another report that makes it clear the IRS could be doing a better job protecting taxpayer dollars. Just look at the figure on the screen. Over 1,000 ITINs were assigned to individuals using the same address in Atlanta, Georgia.

Do you agree there is still a problem or not, yes or no?

Mr. Werfel. I do agree there is still a problem, yes.

Mr. Johnson. Also, the I.G. found the IRS workers handling the ITIN applications remained concerned that management will basically pressure them to rubber-stamp applications instead of ensuring that only qualified individuals receive.

Can you give us assurance that the IRS management won't do this anymore?

Mr. Werfel. I need to look further into that allegation. But, on its face, it sounds like something that is inappropriate, and I will work with the team. I --

Mr. Johnson. Let me just say in closing, your own report acknowledges the Tax Code is nearly impossible to administer because it is so complex. And, based on the billions in improper payments being made with refundable credits, I will just say your agency is proving you right every day. And it is time for the IRS to stop targeting Americans and start targeting fraud.

I yield back.

Chairman Camp. All right.

Mr. Rangel is recognized.

Mr. Rangel. Welcome to the committee.

You have said there is diversity in the BOLO lists, and you admit that conservative groups were on the BOLO lists. Why is it that we don't know whether or not there were progressive groups on the BOLO lists?

Mr. Werfel. Well, we do know that the word "progressive" did appear on a set of BOLO lists. We do know that.

When I was articulating the point about diversity, I was trying to capture that the types of political organizations that are on these BOLO lists are wide-ranging. But they do include progressives.

Mr. Rangel. But, you know, we seem to know what a conservative is, but people -- how come "progressive" now becomes "diversity" instead of what it is? It is groups that are considered to be liberal as opposed to the Tea Party that is considered to be conservative. Is that correct, fair?

Mr. Werfel. I think it is fair. I think --

Mr. Rangel. Okay. As long as it is fair, why are you having a problem with the chairman? Couldn't you say that, in determining whether there was abuse of the provisions of the Internal Revenue Code, the staff were looking for signals for organizations, whether they were liberal or whether they were conservative, and the methods they used were not appropriate? Is that a fair statement?

Mr. Werfel. I don't want to jump to a particular conclusion. I want --

Mr. Rangel. Well, what part of that statement gives you a problem?

Mr. Werfel. Because where we are right now in our review is we understand that these political labels of varying types were on the BOLO lists, and we understand --

Mr. Rangel. Okay. "Tea Party" is a type, right?

Mr. Werfel. Yes.

Mr. Rangel. Can you give me a type of name that would describe a progressive, Democratic, liberal organization?

Mr. Werfel. That is where -- I mean, the word -- and this is where I reach my conclusion that there is a broad range or diversity in the political groups, because there are some more on the obvious side of the spectrum like the "Tea Party" and then --

Mr. Rangel. That is good enough for me. You are saying that there are groups that you can say are progressive groups.

Mr. Werfel. I would put them in three categories. There are one that are clearly on the conservative end of the spectrum, some that are clearly on the liberal end of the spectrum, and then there is a set of groups where it is difficult to determine on the facts where they would land on that spectrum. And maybe they don't land anywhere on that. Maybe they land right in the middle.

Mr. Rangel. Well, that just make so much sense. And, so far, even though you don't like the technique that was used, you don't find that there was any deliberate political attacks made. It was just that they were trying -- based on what you know now, they were trying to do their job, and they didn't do it in the right way.

Mr. Werfel. Yes, my position is that the way in which this should be structured, it should be looking generically at political activity and not using labels that point toward particular political persuasions, because that is inconsistent with the IRS mission statement for how we are supposed to do our work.

Mr. Rangel. Do you think it is possible that the White House would be supporting a targeting of progressive organizations that supported his candidacy?

Mr. Werfel. I don't even want to speculate on that. From my short time at the IRS, I have seen no interaction between the White House and the IRS that would extend to that level. I personally have had no contact with the White House other than to brief the President on this report.

Mr. Rangel. And could you produce to us the type of names that are on the BOLO lists so that we can make determinations as to whether we think they are from the left or the right? Could you help us out with that?

Mr. Werfel. That has been provided to the chairman, given the taxpayer-sensitive nature of the information protected by Section 6103 of the Code.

Mr. Rangel. So you are saying the chairman has a list of organizations that were considered to be progressive that were targeted.

Mr. Werfel. What I am saying is the chairman has been delivered the unredacted version of the BOLO lists.

Mr. Rangel. And that list that is unredacted includes organizations that are considered to be progressive.

Mr. Werfel. It includes taxpayer-sensitive information across a broad spectrum of political organizations.

Mr. Rangel. So the chairman knows, or should know, that the targeting concerned liberal as well as conservative organizations.

Mr. Werfel. That is not a question I feel appropriate I should answer.

Mr. Rangel. But that information was delivered to the chairman.

Mr. Werfel. We have delivered the both redacted and unredacted version of all the BOLO lists to this committee.

Mr. Rangel. And the unredacted includes progressive organizations.

Mr. Werfel. It does, because it is on both the redacted and the unredacted, yes.

Chairman Camp. All right.

Mr. Rangel. Thank you so much, Mr. Chairman.

Chairman Camp. Time has expired.

And, Mr. Rangel, I do want to note for the record that that information was also provided to the Senate Finance chairman, Mr. Baucus.

And you should know that I have also delegated 6103 status to Mr. Levin, so any 6103 information I have Mr. Levin also has.

Mr. Rangel. Are progressive organizations on that?

Chairman Camp. Yes. So we are working in a bipartisan way in terms of the sharing of 6103 information.

Mr. Rangel. You don't know how glad I am to hear that, Mr. Chairman. There appeared to be so much confusion before, but at least we know that the abuse was to both types of organizations, conservative as well as so-called progressives. Thank you.

Chairman Camp. And never wanting to comment too much on the Senate, I believe Mr. Baucus has also shared this information with Mr. Hatch, Senator Hatch.

Mr. Rangel. Thank you.

Chairman Camp. So now I will recognize Mr. Brady.

Mr. Brady. Mr. Werfel, who initiated the targeting of conservative organizations for extra scrutiny based on their political beliefs?

Mr. Werfel. That question is still subject to further investigation.

Mr. Brady. Who have you interviewed in the IRS on that matter?

Mr. Werfel. There are a variety of different employees being interviewed --

Mr. Brady. No --

Mr. Werfel. -- by the Inspector General, the Justice Department.

I know you are going to make the point that I have not personally interviewed the --

Mr. Brady. Or --

Mr. Werfel. -- employees. I understand that.

Mr. Brady. Because you just testified you have not --

Mr. Werfel. I have not.

Mr. Brady. -- anyone within your agency.

Mr. Werfel. Right. And if it is helpful to the committee, I can explain the structure of my review --

Mr. Brady. Sure.

Mr. Werfel. -- and how we are --

Mr. Brady. Let's go to the --

Mr. Werfel. -- uncovering every fact --

Mr. Brady. Let's go to the key questions.

Mr. Werfel. Please.

Mr. Brady. You don't know who initiated the -- who initiated the targeting of donors to conservative organizations who improperly apply the gift tax to their donations?

Mr. Werfel. Again, the types of questions that were raised to donors --

Mr. Brady. Who, I guess is my question.

Mr. Werfel. -- still subject to further investigation. I am just taking issue with the "targeting of donors." I want to make sure that there is no supposition of --

Mr. Brady. Commissioner, please. At this point, you haven't interviewed them yet, so you have honestly know, correct?

Mr. Werfel. We --

Mr. Brady. That is not a crime.

Mr. Werfel. No, no, no. It is not a question of that we haven't interviewed.

Mr. Brady. Okay.

Mr. Werfel. It is a question of that the investigation is ongoing.

Mr. Brady. Who leaked private taxpayer information, including donors, to the National Organization for Marriage to the Huffington Post and the Human Rights Campaign? Do you know?

Mr. Werfel. I do not have that information.

Mr. Brady. Who leaked private taxpayer information for 31 conservative groups to the media, specifically ProPublica? Do you know?

Mr. Werfel. I don't have that information. I will point out that the I.G. reviewed those circumstances and found those releases of information to be not intentional.

Mr. Brady. But you don't know who leaked it.

Mr. Werfel. I don't have that information at my fingertips.

Mr. Brady. Who leaked private tax information to participants of the President's Economic Recovery Advisory Board?

Mr. Werfel. Again, I have to learn more about the circumstances of each issue that you are identifying --

Mr. Brady. Who at the agency in Washington or within the White House was involved in the targeting, delay, and intimidation of applicants on the "Be on the Lookout" list? Do you know?

Mr. Werfel. That I can answer some of the questions. I will say this. I am not aware of anyone at the White House that was involved in this, or the Treasury Department or otherwise. As I have said, all the evidence that we have points to the involvement of individuals within the IRS. And I am happy to talk through --

Mr. Brady. Right.

Mr. Werfel. -- that with you.

Mr. Brady. Let's do -- let's talk through this.

Mr. Werfel. Okay.

Mr. Brady. In regard to the targeting delays of the King Street Tea Party/True the Vote application, who at the time IRS shared private taxpayer information to other Federal agencies, such as the FBI, ATF, and OSHA?

Mr. Werfel. I believe, based on the question you have just asked me, is a question about a specific taxpayer, and I can't answer that question.

Mr. Brady. Finally, who at the IRS was involved in covering up this pattern of abuse within the agency and concealing it from the public and Congress for the past 2 years?

Mr. Werfel. Again, I don't know that I would be comfortable with the characterizations in the question. But I am happy to walk through the managerial chain with you and the events as I understand them.

Mr. Brady. I guess my point is, you are not conducting interviews. You don't know answers to the key questions. Yet, in your report, you declare, "There is no evidence of intentional wrongdoing or misconduct on the part of IRS personnel" -- no evidence of intentional wrongdoing.

Mr. Werfel, this report is a sham. I would call it a whitewash, but it is too thin and unsubstantial to even meet that description.

And my point to you is that you don't work for the IRS; you work for the American people. Your job isn't to cover up, it is to open up this agency. Because what we are seeing, these patterns of abuse and intimidation, the only goal appears to be to silence the voice of people whose views you don't like. And so getting to the truth is critical.

So my question is, I am told you are a decent person, so are you serious about getting to the truth?

Mr. Werfel. Absolutely. Absolutely.

Mr. Brady. Are you serious about --

Mr. Werfel. And I am serious about --

Mr. Brady. -- restoring the integrity of the IRS?

Mr. Werfel. I am serious about getting to the truth, and I am serious about doing it consistent with the rule of law and procedure. And many of the criticisms that you are levying in your set of questions, in order for me to overcome those criticisms, in many cases I would have to violate that law and rule of procedure.

Mr. Brady. Let's do this.

Mr. Werfel. So if --

Mr. Brady. Let's do this.

Mr. Werfel. Okay. Go ahead.

Mr. Brady. Since you are serious, will you commit to returning to the committee in 30 days with more complete answers to the key questions before us?

Mr. Werfel. Absolutely. As these answers become available, I am ready to submit them.

But I think it is very important to understand that, in gathering these answers, we have to follow the rule of law and procedures. So the point --

Mr. Brady. You know, wouldn't it have been great if the IRS --

Mr. Levin. Could the witness finish? Point of order.

Mr. Brady. If I can finish?

Chairman Camp. Mr. Brady controls the time.

Mr. Levin. But let the witness answer the questions.

Chairman Camp. It is up to Mr. Brady to conduct his questioning as he sees fit.

Mr. Brady. Wouldn't it have been terrific if the IRS had followed the rule of law and procedures when targeting these conservative groups and donors, leaking their private taxpayer information, concealing it from the public, and then misleading Congress?

You need to understand one thing. The Ways and Means Committee is going to get to the truth, good or bad. We are not going to stop until we learn the whole truth. And we are going to reveal who initiated these abuses, who participated, who encouraged them, and who concealed them. We are going to hold them accountable, including you if you hinder this investigation. And then we are going to make sure the IRS never does this again to average taxpayers.

I yield back.

Chairman Camp. All right. Time has expired.

Mr. McDermott is recognized.

Mr. McDermott. Thank you, Mr. Chairman.

Mr. Werfel, thank you for being willing to be the director of the IRS. After that last set of questions, I think it is important to thank you. You have been at the center of a firestorm, as has the whole agency. And the IRS has made attempts to address the criticisms and meet the challenges that face us.

I said it before in this committee, but it bears repeating: The IRS has a difficult and almost impossible and thankless job. It is the agency easiest to dislike and easiest to throw under the bus. You go back to the Bible, who do they pick out to talk about? Tax collectors. Remember Zacchaeus? These are the people who are sort of the bottom of the society. And that is the way we are treating IRS people, and I don't believe it is fair. You are hardworking, dedicated civil servants who do your very best to administer the law.

Now, I am going to stop my -- what I was going to say, except to say one thing. I don't think BOLO lists should be thrown out. Every time I get on a United Airlines flight to go home to Seattle, before it leaves the ground the first officer leaves the cockpit and goes down with a BOLO list. He is on the lookout for a lot of things on that plane. You use it to organize your thinking.

The American College of Surgeons has just adopted BOLO lists. Before they take somebody into surgery, there is a whole long checklist of things that they look at in anticipation before they put you under anesthesia and do surgery.

We think that is the way you organize your thinking. And it is clear to me that a "Be on the Lookout" list is a good idea. So don't say you are going to throw them away, because we know that -- otherwise, you become the DMV in Seattle, where you go in to get your driver's license, you take a number, and you wait, and you will have a long line of people because they are not organized. They are taking them one at a time. And if you take 292 or 298 one at a time and don't organize your thinking, it doesn't make any sense. So I want you to be careful about how you reorganize.

But I would like you to take the rest of my time to answer the questions that Mr. Brady kept interrupting you on.

Mr. Werfel. I appreciate that, Congressman.

The point I was trying to make in response to Mr. Brady's questions was that there are certain procedures that need to be followed in getting the answers that this committee is looking for and the American people are looking for.

As an example, clearly, the employees involved need to be interviewed. And I am helping to make sure that those employees are interviewed. The issue is that I have been asked by the Justice Department and the Inspector General to enable them to do the interviews, to ask all the thorough questions to get to the bottom of this, because that will make sure that if there is a prosecutorial action that needs to be taken, that it will be clean and the evidence chain will be clean. These are very specific instructions coming from the Justice Department and the Inspector General.

So the notion that no witnesses are being interviewed is not accurate. The accurate answer is that witnesses are being interviewed. Whether I am personally sitting across the table or not from interviewing -- I would love to be able to. But the reality is I am going to follow the process and the rule of law in getting to the bottom of it. And one of the constraints that I have is that I have to let professional investigators do the interviewing. And that is a constraint that I am willing to live with, because I trust that these professional investigators will be able to get to the bottom of it.

One more point that I want to make about the rule of law and process around accountability. There is going to be a lot of questions and implications that the accountability is not real because people are still at the IRS and they are still, getting a paycheck.

The reality is that when you take personnel action for discipline against a civil servant, there are rules of procedure that need to be followed. And if I went off and cut off those rules of procedure and fired people and suspended them without pay, then I personally would be violating those rules of laws and procedures.

And they are put in place for a reason. Those due-process protections are put in place so that, in the event that an employee is unfairly selected for discipline, they have an opportunity to defend themselves. There is a good reason for them.

So when we see things that bother us in government, in particular in the IRS, and we want people held accountable, what we need to focus on is making sure that we are following a very diligent and expedient process in holding those individuals accountable. And that is what we are doing right now. We are pursuing the correct set of disciplinary actions, but we are doing it consistent with the laws and regulations that govern our operations.

Chairman Camp. All right. Thank you.

Time has expired.

Mr. McDermott. Thank you, Mr. Chairman.

Chairman Camp. Mr. Ryan is recognized.

Mr. Ryan. Thank you.

Mr. Werfel, Secretary Lew asked you to put this report together to make sure that nothing like this ever happens again. I look at page 35, and I see basically a case made for a budget increase. Your budget asks for over a billion dollars in more spending for your agency, and you are asking us to hire another 4,572 employees.

Let me read you what we have already learned in just 2 months. In just 2 months, we have a conference in Atlanta which had a celebrity chef, Wolfgang Puck, cater, costing \$2.4 million; we have a conference in Anaheim, California, \$4.1 million; a conference in Philadelphia, \$2.9 million; a conference in San Diego, \$4.1 million.

One of these conferences, you had \$135,000 for 15 speakers. That is about \$9,000 per speaker. The IRS paid for the Deputy Commissioner to stay 5 nights in the presidential suite at the Hilton hotel during one of these conferences. You paid \$17,000 to a speaker to create paintings of Bono, Michael Jordan, Abraham Lincoln, and others.

We hear a report of crony contracting between an -- improper relationship between an IRS contractor and a person whose business had less than \$250,000 in income the prior year, is getting awarded \$500 million contract.

Between 2010 and 2012, you had 225 conferences, costing \$49 million.

Let me see if I can put this in perspective for you. I represent a town of Sturtevant, Wisconsin. A little less than 7,000 people live there. It is a great village. The village of Sturtevant is basically a blue-collar town. People work at the Case tractor factory. They work at the S.C. Johnson factory. It is surrounded by cornfields and bean fields and lots of small businesses.

v v v

Mr. Ryan. It took more than 100 percent of the Federal taxes paid by the working families of the Village of Sturtevant, Wisconsin, to pay for the 225 conferences you spent at the IRS from 2010 to 2012. That is the

way you need to think of this. People are working hard, they are living paycheck to paycheck, they are paying their taxes, and this is what you are spending their taxpayer dollars on?

And now you come here asking us for a billion dollars, about a 10 percent increase. You are asking us to hire another 4,500 people.

I represent Rock County, that is my home. The population of Rock County and all families of Rock County, their taxes wouldn't even cover the billion-dollar increase that you are asking for.

You are here representing the President. You are asking us for this increase. I know you are new to the IRS, you come from the Office of Management and Budget, and you have a great reputation. So you are a budget cruncher. How on earth do you think you have the moral authority to ask for this? Why would we, representing the taxpayers we represent, give you all this extra money you are asking for if this is what the IRS is doing with hard-earned taxpayer dollars? We are seeing just in 2 months waste, fraud, abuse, and taxpayer targeting, and you are saying give us another billion dollars. Why should we do that?

Mr. Werfel. Congressman, you are asking very important questions and I would love the opportunity to address them.

First, I agree that the costs that you are referring to are excessive and in many cases inappropriate and should not have happened. The reports that are coming out that are identifying these are covering events that occurred 2 and 3 years ago. And my concern is great, but my concern would be even greater if I saw that those patterns of spending are continuing through today.

In many cases they are not. We are looking at 68 percent cut in training travel, we are looking at 45 percent cut in other travel in the IRS. We have cut our printing by 30 percent, we have cut our professional and technical services by 25 percent. There are deep cuts going on --

Mr. Ryan. Okay.

Mr. Werfel. -- in lot of these activities. Now --

Mr. Ryan. Okay. Here is my suggestion, let's have these cuts take place and then come back to us in a year or 2 and let's see if you are running this place well, then we will consider a budget increase. How does that sound?

Mr. Werfel. I will say that it is a fair point. I will say this, that there are more cuts to be made. And I think in this report, in section three, and in subsequent testimony that I will give to this committee, I will furnish for you additional cuts so that we can go even deeper so that every penny is watched even more closely --

Mr. Ryan. Great. So it sounds like you don't need a budget increase.

Mr. Werfel. No, I am not saying that, because I think there is a broader macro point. It goes, I think, back to some of the questions that Congressman Johnson was asking. We still have an indispensable mission to enforce the Tax Code, to go after fraud. The cuts that we are seeing dwarf any kind of conference expenditures that we have. The materiality difference is much different. And we just have to look at this and say, okay, has the IRS done enough to get its shop in order to cut those excessive costs? I will make the case to you that we are going in the right direction. But I will also make the case to you that if we underfund other critical priorities that lead to improved taxpayer service and improved enforcement of the Tax Code then we are leaving dollars on the table for the American people because every dollar spent by the IRS has a positive --

Mr. Camp. Time has expired.

Mr. Ryan. Just don't forget, you work for the taxpayer, it is not the other way around.

Mr. Werfel. I understand that.

Chairman Camp. Time has expired.

Mr. Lewis.

Mr. Lewis. Thank you very much, Mr. Chairman.

Thank you, Mr. Commissioner, for being here.

Could you tell us how long you have been on the job?

Mr. Werfel. I started --

Mr. Lewis. How many days?

Mr. Werfel. It has been about 34 days.

Mr. Lewis. So all of this stuff, all of this stuff just evaporated into air. It didn't happen on your watch.

Mr. Werfel. No, I arrived in late May and am doing my best to identify the problems and fix them.

Mr. Lewis. Could you tell us something about your background, the last job?

Mr. Werfel. Yes. I think you know, and I have talked about this before in other hearings, the reason why I was chosen for this job is a couple of different reasons. And I appreciate Congressman Ryan's comment that I have a strong reputation. I served in leadership positions in both the Bush and Obama administrations. I consider myself to be nonpartisan. The issues that I have worked on across my career have been very nonpartisan. It is all about better government management, reducing fraud, reducing error, reducing improper payments, improving the way the government manages its real estate, just very nuts and bolts.

I think Ranking Member Levin referred to me as a technocrat, and I have developed an expertise in public sector management over a 16-year career as a civil servant. Most recently in my role at OMB I developed a reputation and experience in tackling some of government's toughest challenges. For example, back in 2009, 2010 I was the administration's lead on implementing the Recovery Act, which was a very large and complex law that involved a lot of different technical complexities that needed to be done, and I was the point guard for it and developed a reputation of doing it effectively.

More recently I have been involved in helping the government prepare for a government shutdown, helping us deal with the sequester. These are tough public sector management challenges, and I was able to distinguish myself to the administration leadership as someone who can handle a situation like this effectively.

So when you combine those factors. And I think the bottom line is, and when I was presented with this opportunity I basically said, I will do this. I am going to do it because I am going to have this guiding principle that I am always going to work to find the right answer to every challenge that I am confronted with. I am doing what is in the best interest of the taxpayer, I am doing this in the best interests of the IRS. And I think if I can hold to those guiding principles then I am going to be able to go to sleep every night knowing that this was a smart decision to take this job and take the IRS forward.

Mr. Lewis. Mr. Commissioner, I want to thank you for your willingness to serve, to put yourself in the way and make a contribution to getting the IRS in order.

How do you feel about IRS future in processing tax-exempt organizations' applications?

Mr. Werfel. When I arrived in late May we had a very broken process, clearly. The IG report points to both management and process failures that were going on in that area. There is new leadership in place, I have a lot of trust in those new leaders. In particular an individual named Ken Corbin is now running the Exempt Organizations Unit. He is a process expert. He is already inspiring in me a lot of confidence that he is in there working the issue, reengineering, and redesigning the process, and making the appropriate fixes.

We have agreed to all nine IG recommendations for how to fix the Exempt Organizations Unit. We are making good progress on that and that progress is outlined in this report. We are taking steps above and beyond what the IG recommended, because we think there is even more to be done to make sure that we are extremely robust in our fixes. Those are also outlined in the report and we are making good progress there.

It is a challenging environment. What I have learned is reviewing these applications for tax-exempt status is difficult because you are on a foundation of ambiguous laws and regulations. And as I said, in very few other areas within the IRS is a determination on the nature and extent of political activity a relevant factor to consider. So this part of the IRS has this kind of unique set of requirements. And, clearly, when you combine those unique set of requirements and management weakness and leadership weakness, we had a failure. But I am optimistic that we have the right people in place right now, specifically in the Exempt Organizations Unit, in services and enforcement, that are going to lead us to get this problem corrected.

Mr. Lewis. Well, thank you very much, and I look forward to working with you.

Chairman Camp. Thank you.

Mr. Reichert.

Mr. Reichert. Thank you, Mr. Chairman.

Mr. Werfel, isn't it true that 100 percent of Tea Party applications were flagged for extra scrutiny.

Mr. Werfel. It is my understanding the way the process worked is if there was Tea Party in the application it was automatically moved into this area of further review, yes.

Mr. Reichert. Okay. And do you know how many progressive groups were flagged?

Mr. Werfel. I do not have that number.

Mr. Reichert. I do.

Mr. Werfel. Okay.

Mr. Reichert. Our investigation shows that there were seven flagged. Do you know how many were approved.

Mr. Werfel. I do not have that number at my fingertips.

Mr. Reichert. All of those applications were approved.

I want to follow up on some questioning that occurred a little earlier in the hearing regarding intent. So I am an old cop, 33 years. Most of that time I was a homicide investigator. So we dealt a lot with criminal intent. And so when you use the word intentional or unintentional it sort of is a flag for me to inquire a little bit further.

So are you talking about criminal intent? Are you finding that there is no criminal intent? Or are you saying that there is no intent to what?

Mr. Werfel. The questions that are being asked by investigators deal with both criminal intent and other types of intent, which, for example, could mean political bias, but no criminal intent. There is gradations here. I am not a legal expert on them. But I know that part of the ongoing review is to understand the nature and circumstances of this.

Mr. Reichert. So I also know that there are two investigations that occur, just like there were in the sheriff's office when I was the sheriff in Seattle. You have the criminal investigation that is ongoing and then you have an internal investigation. Sometimes we know the internal investigation is put to the side while the criminal investigation continues on.

Are you in contact with those that are conducting the criminal investigation? Are they making you aware of the information that they are finding as far as any possible criminal allegations with any of the employees within the Internal Revenue Service?

Mr. Werfel. My main point of contact in this effort is Russell George, the Inspector General, and his team. He is working directly with the Justice Department. They give us periodic updates on their progress.

Mr. Reichert. Do you have any information that there may be some criminal --

Mr. Werfel. No such evidence has been shared with me at this time.

Mr. Reichert. So to get back to the intent part, your report states that some applicants were subjected to overly burdensome, intrusive questions, questionnaires, and data requests that went way beyond the acceptable level of factfinding. But yet at the same time it says that none of the actions taken by the IRS employees were intentional. I don't understand that, how you can ask those questions, provide those questionnaires, asking for certain data, but yet be unintentional in conducting that sort of activity.

Tea Party members had -- a donor had been threatened, some donors have been threatened. They had confidential information that had been leaked. They were sent inappropriate and intrusive questions, unintentional threatening of donors. I don't understand unintentional in that light either.

And so I sort of am falling in line with what Mr. Brady said, is that the report -- I understand your desire to be a public servant, you want to do the right thing, but in order for you to do that, Mr. Werfel, and for the American public to have trust in you and the IRS again, you can't be vague and misleading in your statement that you have given to this committee. You say that even after senior IRS leadership was informed of the inappropriate activities in question it failed both to effectively put an end to the activity and to inform the proper committees in Congress in a timely fashion despite requests from Congress on this topic.

So I don't understand how your leadership could be found to be unintentional and they are not reporting to Congress. Mr. Miller sat here and conveniently lost his memory during his questioning. So could you explain to me unintentional?

Mr. Werfel. I can.

Mr. Reichert. It makes no sense to me and I am sure it makes no sense to the American public.

Mr. Werfel. Let me offer my best explanation.

First, I want to go back to the point that we are hearing questions from taxpayers, they want to know if there was intentional wrongdoing here. We are answering that question very carefully and saying there is more work that needs to be done but right now we don't have evidence.

Mr. Reichert. But, Mr. Werfel, you really can't say that it was unintentional is my point.

Mr. Werfel. Let me address that.

Mr. Reichert. You should not be saying -- sir, you should not be saying in your report that you found that this was unintentional, because you don't know. You don't know.

Mr. Werfel. And that is basically what we are saying, there is no evidence.

Mr. Reichert. Is that true, you don't know?

Mr. Werfel. But let me make the point about --

Mr. Reichert. Why did you say it was unintentional?

Mr. Werfel. Let me offer --

Mr. Reichert. No, why did you say it was unintentional when you don't know? You just said you don't know.

Mr. Werfel. I did not say that it was unintentional.

Chairman Camp. Time has expired. Mr. Werfel, why don't you answer briefly and then we will go on.

Mr. Werfel. Okay. First of all let me clarify what I said. I said very clearly in the report that more work needs to be done to review documents, to interview folks, but at this point we don't have any evidence of intentional wrongdoing.

And what we meant by that is that it is a different situation if a manager thinks and an employee thinks this is the right thing to do, this is how I am supposed to conduct my business. And they could be mistaken, and they could be incompetent, and it could be total mismanagement in how they think they are appropriately carrying out their duties, which is different than them saying, I know this is wrong, but I am going to do it anyway because I have a particular agenda in mind. And that is the difference that we are trying to distinguish.

Chairman Camp. All right, thank you. Time has expired.

Mr. Neal is recognized.

Mr. Neal. Thank you, Mr. Chairman.

Mr. Werfel, do you need 2 more minutes of my time.

Mr. Werfel. No -- thank you for the offer, though. Thank you.

Mr. Neal. Mr. Werfel, clarify something, the IG letter states that there are at least two groups of specialists within the IRS that used the BOLOs. The first is the specialists that are dealt with in 298 cases flagged for political campaign intervention. The second, it is the team of specialists in the Touch and Go unit. We know that some of the progressive group applications went to the 298 teams of specialists. The Inspector General did not investigate how the progressives were handled by the Touch and Go unit. Have you looked into this?

Mr. Werfel. Yes, we are in the process of looking into it. When the report says that we start with the audit report and all the various materials that the Inspector General provided us in support of the audit report we are going deeper than that and broader than that. That is, for example, how we found the BOLO lists with the inappropriate criteria because we were going beyond the Inspector General footprint. And of course when we found them we put an immediate suspension to them because we were very concerned about them.

And when you go deeper and broader into this issue you see other categories. You mentioned Touch and Go. And so we are looking into it and trying to understand, how were these lists used, what were the circumstances that caused these inappropriate political labels to occur? How were they used? What impact did it have on taxpayers?

These were all questions that we are asking in real time, and like everyone in this committee I want answers to them, but I am going to follow an expedient and fair and thorough process to get those answers. And I will be back here to answer those questions in the future.

Mr. Neal. You are congratulated by members on the other side for the vigor with which you have taken up the task of pursuing these different questions and then you are accused of not doing follow-up. I mean, there is an element of inconsistency to that as you try to figure out how to pursue new information and data as you come across it.

Now, the issue really here for all of us is the following. Citizens United caused the IRS to be flooded with applications from groups seeking 501(c)(4) status, and why was that? In large part it is because Super PACs must disclose their donors while 501(c)(4)s do not. That is really what happened here.

And as we have tried to unearth some of these questions where members on the Democratic side have been equally vigilant in pursuing what we might deem to be egregious moments with IRS pursuit, but it is obvious as well that you haven't finished your work and you need to be given some time and opportunity to pursue these cases.

We all need to be outraged. The American people shouldn't be afraid of the IRS, we have all established that. But I think the simple point is you would argue you need more time. Is that correct?

Mr. Werfel. Absolutely we need more time. And my hope today, and in this report, and in every communication I have with the public or the committee, is that there is transparency into the process that we are following. And I want to be clear that the process that we are following has certain legal and process constraints, procedural constraints, but we are moving as expeditiously as we can. We are getting documents to the committee, witnesses are being interviewed, materials are being furnished to the Congress. A lot of the questions orient around materials that we provided as part of this growing investigation of information that we provided earlier this week.

So absolutely, there are more questions to answer. And I think the track record we are demonstrating here is a diligence to answer them, but also a caution to make sure that we are following the rule of law and procedure in doing so. It is a tough balance because, as I said, I want these answers as quickly as possible. But it is absolutely essential that I follow appropriate due process procedures in running this investigation. I think any investigation across a broad spectrum of organizations and leaders and legal investigations would follow those same principles.

Mr. Neal. Mr. Chairman, we are all better off if we have an accurate portrayal of precisely what happened as opposed to the accusatory tone that is being suggested. And you can see, incidentally, that the argument has already shifted here. We have moved to the conferences, which is a legitimate criticism, away from the focal point of this hearing, and that is whether or not political groups were targeted by the IRS. So it occurs to me that perhaps some of the argument is weakening on the other side.

Thank you. Thank you, Mr. Chairman.

Chairman Camp. Thank you.

Dr. Boustany.

Mr. Boustany. Thank you, Mr. Chairman.

Welcome, Mr. Werfel.

Mr. Werfel. Thank you.

Mr. Boustany. I agree it is going to take time to get to the bottom of this, but one disagreement I have with you at this point in time with the 30-day report, Mr. Werfel, is I don't see a sense of urgency. The big picture here is that you have an obligation on your shoulders to restore the trust in this entity, the IRS, to restore the trust with the American people and with this Congress.

Now, in your report you have a section titled "Transparency with Critical Oversight Organizations" where you talk about the IRS' failure to properly inform Congress about the issues that were occurring, even after congressional committees specifically began asking questions, and we started asking questions years ago on this. But let me get this straight, in Acting Commissioner Miller's June 15th letter to me after we had gone back and forth -- and I had meetings with Shulman, meetings with Miller, hearings with both of them, and letters. I have a June 15th letter here and the only response essentially that we got was that EO took steps to coordinate the handling of these cases to ensure consistency.

Now, Mr. Brady asked questions earlier and you told Mr. Brady that you disagreed with the characterization that IRS employees engaged in a coverup. But if you know the truth on this, I mean if you know that there were folks in senior positions at IRS who were misleading, evasive, essentially covering up what was going on with targeting, if you know this and you are not coming forward with this, is that a coverup?

Mr. Werfel. No. And what I said to the Congressman earlier was that I am not ready to draw a conclusion. He was asking a question in a way that if I answered it, it could imply that I was agreeing with the premise of his questions. Your question is, is there a coverup. I don't know the answer to that question. I think the key is that we make sure that we do the thorough investigation. I think the Justice Department and the IG are doing that.

Mr. Boustany. But we know that Commissioner Shulman and we know that Acting Commissioner Miller were informed of these things and yet they continued to basically evade our questioning, they were misleading with us. This has been determined so far in the investigation, it certainly had been determined by the TIGTA audit. We need you to have a sense of urgency to come clean. You have an obligation to the American taxpayer and to this Congress to follow through with our oversight function and with transparency in front of the American people.

Mr. Werfel. So the commitments that I am making today are, one, to explore all the facts, including questions about intent or concern that you have with respect to why answers weren't questioned more quickly. I am not going to draw a conclusion now and say we have definitely decided.

But let me make one more point. One of the important things in this report is an important point that I think is going to be very helpful to this committee. I am suggesting the IRS needs to do is more readily share information on emerging risk areas and emerging operational issues within the IRS with this committee sooner rather than later.

Mr. Boustany. No, I get that, I get that.

Mr. Werfel. Yes.

Mr. Boustany. I want to shift gears for a moment and talk about the bonuses that have been distributed, it has gotten a lot of press.

Mr. Werfel. Yes, yes.

Mr. Boustany. And included in these bonuses during the time that targeting was occurring, we know that a quarter of a million dollars were paid out to just four employees at the IRS, all of whom resigned or are on administrative leave at this point due to their involvement in the Tea Party discrimination issue.

One individual, the first to resign, received more than \$83,000 in bonuses on top of his salary of \$177,000. And we also know that others have received bonuses who were involved in this tax exempt issue targeting Tea Party entities.

Now in light of all this, are you going to take any steps to put a freeze on this? Is there going to be an attempt to recoup some of that bonus money?

Mr. Werfel. Let me answer the question in a couple of different ways. First, I agree when you look at the juxtaposition of individual management and judgment failures that went on in this situation and you juxtapose that against the bonuses received, it is very troubling. It is part of my larger conclusion here that the IRS leadership did not have timely enough understanding of what was going on with these particular activities to make informed judgments about compensation through bonuses.

Secondly, I mentioned earlier to Congressman Ryan about me coming back to this committee with additional ways in which we can cut costs even further, and I think bonuses is an opportunity.

Mr. Boustany. You can put a freeze on it now. Put a freeze on these bonuses.

Mr. Werfel. I am glad you asked the questions, because there has been some public misunderstanding about where we stand with our bonuses for this year and if I could clarify it.

Mr. Boustany. Yeah, but the trust with the American people has been broken. I understand contracts and union contract --

Mr. Werfel. Well, if I can explain it --

Mr. Boustany. -- and those kinds of things.

Mr. Werfel. If I can explain it, and here is the situation with our bonuses. When I was in OMB I signed out a policy that froze bonuses across the government in light of sequester. It was one of our methods of dealing with the sequester cuts, a bonus freeze. But that guidance also said it was subject to legal constraint. So if the bonuses had to be legally paid out we had to look into that issue.

What is going on --

Mr. Boustany. But the trust has been broken.

Mr. Werfel. Right. What is going on at IRS now is that we have a union and we have a bargaining unit and an agreement that we will bargain on the question of bonuses with that union. And my answer on bonuses is that no decision has been made. Going back to my point about following the rules of law and procedure, I have an obligation before I freeze the bonuses for IRS, if that is the decision that is ultimately made. I don't know at this time. First step in my legal requirement to bargain that issue with the unions, and that takes time. We are going through that process right now.

Mr. Boustany. Mr. Chairman, we need a sense of urgency with this and leadership to put a freeze on these bonuses.

Chairman Camp. Time has expired.

Mr. Becerra.

Mr. Becerra. Mr. Werfel, thank you very much for being with us, and look forward to having you come back. I think you have mentioned that everything you have stated in your reports and everything that the IRS has done so far to investigate this matter is not yet complete. Is that accurate?

Mr. Werfel. That is correct.

Mr. Becerra. So when you say at this point you have found no evidence of wrongdoing, it is as of this point.

Mr. Werfel. If that is the question we are getting raised, then I feel compelled to give the most honest answer I can, which is exactly the point. More analysis is needed, but at this point in time, if you are asking me have we found evidence of intentional wrongdoing, we have not. And I understand the confusion around the word intentional because these actions still happen. I tried to explain it is the difference between whether someone knows they are actually doing something wrong or it is a question of management incompetence or neglect of duty.

We certainly have evidence of neglect of duty. What we don't have evidence yet of is that someone knowingly did something wrong based on political animus or criminal intent. That evidence just hasn't materialized yet.

Mr. Becerra. And you are use, I think, the operative word, the evidence. So to date there is no evidence of wrongdoing.

Mr. Werfel. There is no evidence of intentional wrongdoing. There is evidence of managerial wrongdoing.

Mr. Becerra. And to date there is no evidence linking anything that occurred at the IRS to the White House.

Mr. Werfel. That is correct.

Mr. Becerra. Okay. And as of today you are in the process of investigating.

Mr. Werfel. Yes, there are more people to talk to, and in many cases under oath, and there are more documents to review.

Mr. Becerra. And as I think you have tried to make clear but been interrupted as you tried to provide the answer, the reason you haven't spoken to some of the folks that are principal to this investigation is because others have the principal responsibility to do the investigation.

Mr. Werfel. I have two thoughts to this question because it keeps coming up. One is the legal, the rule of law. The legal process prohibits me from talking to these employees. The Justice Department and the Inspector General are the appropriate officials.

Secondly, even if there was no constraint, we also have professional investigators on the scene that are very skilled in talking to witnesses, and ultimately we might make a decision that those individuals are the ones who should be interviewing the witnesses and providing that information to me.

Mr. Becerra. Well, we want you to be able to continue with that investigation the right way, and we hope that you are able to come back and answer the questions that you can given the work that you are doing and the jurisdiction you have to provide the answers.

But I would say at this stage what we are hearing from you, in fact I think what we heard from Mr. George, the Inspector General, is that there is an investigation that is ongoing. In fact the chairman of the committee in his opening statement said that we are still in the early stages of this investigation, that the Inspector General is doing a more thorough investigation. Mr. Brady, my colleague on the Republican side said, said we are not going to stop until we learn the whole truth. So we still need to find out the facts.

At this stage we have an investigation ongoing. It is a half-baked investigation. And to reach any conclusions would mean we have reached half-baked conclusions. And so whether it is your conclusion or my Republican colleagues' conclusion, for anyone to make accusations at this stage it is with only part of the information.

Mr. Werfel. And there comes the distinction. To answer "this is exactly how it happened" is not a question that we can answer yet. But I think we can answer, is there any evidence that any of this has materialized, that is a question we can answer because we are in process. And I can comment --

Mr. Becerra. Good point.

Mr. Werfel. -- on whether the evidence has materialized in any way.

Mr. Becerra. Good point. So far what the evidence tells you is what you are responding to and we appreciate that.

I would say I, too, would like to have you back. I hope every one of my colleagues on this panel would agree that we have to have Inspector General George back because he has, as Ricky Ricardo would tell Lucille Ball, he has some 'splaining to do. There is a lot that he has not yet answered. In fact, there are some things that he answered that may not have been forthcoming.

I would like to finish with one last point. Now, this whole investigation centers around the issue of 501(c)(4) organizations. Now, as you know, 501(c)(4) organizations are social welfare organizations. Under the law 501(c)(4) applies to organizations that are not organized for profit, but operated exclusively for the promotion of social welfare.

I am not sure if you are aware, Mr. Werfel, but those same 501(c)(4) social welfare organizations spent \$256 million on political expenditures in 2012. Did you know that that is more money spent by these social welfare organizations, nonprofits, than the two political parties combined, which spent \$255 million?

So that is the crux of the problem here, is that we have so-called social welfare organizations that spend more money than the two political parties combined. And so when IRS is concerned that there may be some organizations that are trying to game the system at taxpayer expense, that is why we have to have these investigations. So we hope to have you back.

I yield back the balance of my time.

Chairman Camp. Mr. Roskam.

Mr. Roskam. Thank you.

Mr. Werfel, my constituents are afraid of guys like you. They look at this hearing, they listen to you -- and I accept at face value that you have got a good reputation from the past -- but they look at you and they are afraid. They are afraid of the power that you have, they are afraid of sort of your clinical and somewhat dispassionate approach on this. And I want to walk you through this to recognize the fear that they have because of the power that you have.

And my prediction is that our country is at a tipping point right now, and the tipping point is there is an awakening amongst the governed about authority that they have delegated to Congress and that Congress has delegated in this place to the IRS, and that authority has been abused.

So you used language earlier, things like, I am serious, I cling to the rule of law, you know what I mean, those types of things. And, frankly, I would expect you to say things like that and I would be discouraged not to hear you say things like that. But you are familiar with the Taxpayer Bill of Rights of 1998, I assume, as a general document, it is a statute. And in the Taxpayer Bill of Rights it is very clear that the Internal Revenue Service is prohibited under the law from willful misuse of provisions of section 6103 for the purpose of concealing information from a congressional inquiry. You are familiar with that, aren't you?

Mr. Werfel. Yes.

Mr. Roskam. This is a congressional inquiry, clearly. There has been a request by this committee of documents to be forthcoming from the Internal Revenue Service. And here is an example of two of them. They have been redacted to the point of absurdity.

Now, we have knowledge that there is information in these two documents that is not subject to 6103 protection, and so the entire section 6103 question should be set aside. And what I am suggesting is the fear that animates in the hearts of my constituents when they look at you is they say, we are not getting the straight answer, we are seeing bureaucratic doubletalk, we are seeing a bunch of nonsense, how can we possibly pierce through this?

And so the level of anxiety and the concern that you hear from committee members is the recognition of an abuse of power, but it is a gratuitous abuse of power. Now even when the investigation comes up, the committee, based on lawful requests, is now not getting the type of answers.

So can you assure us that this type of nonsense, where I know beyond a shadow of a doubt that there is information in these documents that should not be subject to 6103, that the IRS is claiming to an absurd, Kafkaesque level, that somehow this needs to be protected? Can you assure us, based on your 30 days on the job, that this nonsense will stop?

Mr. Werfel. Let me give you several assurances that you can give to your constituents to clarify. The first assurance I would give is that the information that you are holding in your hand is not being held just by the IRS. We have submitted all the information, minus all those black lines and those redactions, to the chairman of this committee. So the notion and the implication that that information is being held just in the IRS is incorrect.

Mr. Roskam. But, Mr. Werfel, you know the law, you know that when it is cloaked in 6103 we are prohibited under the law from revealing that. So you have got to release this information so that it can be publicly discussed. That is exactly what the statute speak to.

Mr. Werfel. Let me get to my second point, because I want to address each of those points. I just wanted to make sure that the public understood that that information resides with this committee and the Senate Finance Committee. The second reassurance is that there is a tension here. We have a --

Mr. Roskam. But you didn't answer the question as it relates to the cloaking of 6103.

Mr. Werfel. I will answer the question.

Mr. Roskam. You are not releasing the information pursuant to 6103.

Mr. Werfel. I can answer these questions if you enable me.

Mr. Roskam. Go ahead.

Mr. Werfel. I want to make sure that people understand, your constituents understand the tension that exists, that we also have a solemn responsibility to protect the confidentiality of their taxpayer information. And these procedures are set up so that we redact this information, although we sent all of it to the chairmen of the Ways and Means and Senate Finance Committee so it is outside the IRS. And to the extent that there is a notion and a concern that there is over-redaction, that is something that we need --

Mr. Roskam. This is junk. This is junk. This has no meaning.

Mr. Werfel. It might be junk, but it might be sensitive taxpayer information.

Mr. Roskam. It is not, we know it is. And you are hiding behind it. And I am telling you, I am putting you on notice, this committee intends to uphold the 1998 act and we are going to follow through on it to make sure that the IRS is forthcoming and not creating a bunch of nonsense hiding behind bureaucratic doubletalk.

Mr. Werfel. If there is a particular instance --

Chairman Camp. Time has expired.

Mr. Werfel. Okay.

Mr. Camp. I know at the staff level, Mr. Werfel, we have raised the issue of over-redaction. What it does is limits the ability of committee to use it. And so I do think this is an issue that is appropriate that Mr. Roskam has raised, and it is something that we probably need to pursue further.

Mr. Werfel. I think so. And I think one thing that should be clarified given Congressman Roskam's comments, it is my understanding, you can correct me if I am wrong, it is my understanding that as the chairman of the Ways and Means Committee you can release information if you think that it is not 6103 sensitive.

Chairman Camp. I cannot unless it is to the full House. And clearly this is an area that we really have to have the experts involved.

Mr. Werfel. Yes, I agree with that.

Chairman Camp. In the context of the final report, which clearly we are not there yet, I can release the information ultimately to the full House, but I can't be the single arbiter of what 6103 is and what isn't, because obviously Senator Baucus and Senator Hatch received this as well. But we do have concerns that at

a staff level there is an over-redaction that limits the ability of the committee to use the information. So we have been trying to work through that.

Mr. Werfel. As I have always said, if there are concerns we want to work with you to explore that. But I just wanted to clarify that this information is not just residing within the IRS. That was my main point.

Chairman Camp. No, it isn't. And we do receive the unredacted versions. But again, then those aren't shared other than with Mr. Levin at this level.

The next person is Mr. Kind -- no, Mr. Pascarell. Oh, Mr. Kind is here, I am sorry.

Mr. Kind. I am sorry, Mr. Chairman, I was being blocked by my esteemed colleague here from Connecticut.

Mr. Werfel, thank you so much, and thank you for your willingness to assume this very tough duty. I mean you are, obviously from today's hearing, stepping into the lion's den. And I really appreciate. You have a much larger duty of restoring faith and trust and confidence in the IRS than just the spending that went on with conferences or bonus payments or even the issue before us today, the exempt organizations.

Let me steer back to a troubling issue that I have been wrestling with. Obviously, you have many organizations, especially after Citizens United case, that are applying for (c)(4) tax-exempt status. The Inspector General looked into it and recommended to the IRS certain steps and procedures in how to review that and how to filter it out, and you probably have some additional ideas.

But the point here is that these groups aren't automatically entitled to tax-exempt status, they have to meet certain qualifications, certain criteria in order to qualify for it. And every time there is an organization out there that does qualify for tax-exempt status that increases the relative tax burden on organizations that don't or individuals throughout our country that doesn't need it.

And (c)(4), the rule has been they have to be principally engaged in social welfare. We have gotten away from the more definitive definition of exclusively engaged in social welfare. But how do we move forward now, today, of doing a proper review of these organizations to ensure that they are qualifying under the (c)(4) definition of social welfare status, without being accused of them being picked on or that political selection is taking place?

In other words, how do you institute a generically neutral screening process now that is going to pass muster on both sides of the aisle, yet still doing the tough job of screening out those organizations that really ought not be qualifying for tax-exempt status because they are principally engaged in political activity? And we know that is going on. I think anyone here who is fooling themselves in thinking that a lot of these (c)(4) applications are social welfare hasn't seen what has happened over the last couple of years in the American political system.

Mr. Werfel. We have an approach that begins to answer that question, but I think it needs to be a dialogue between us, the IRS, this committee, and others, and in particular the Treasury Department I think plays an important role here, because there is a policy question to be answered.

But in the report we outline the self-attestation or certification program, and what we essentially take is our high priority backlog, those advocacy cases that have been in our backlog for more than 120 days, and we are offering them a more objective review.

And essentially if they attest that not more than 40 percent of their expenditures or their voluntary person hours will go to political campaign intervention, and at the same time they also attest that more than 60 percent of their expenditures and voluntary person hours will go to a social welfare purpose, then they

would receive an approval from the IRS and they would go forward, with a responsibility to update us if the nature of those activities change and an understanding, like every other (c)(4) or (c)(3) organization, that they are potentially subject to audit or examination at some point in time in the future.

Mr. Kind. Well, I just hope we are not going on the road of the IRS being subjected to this type of scrutiny every time tough questions have to be asked in regards to how these organizations are spending their money and what activities they are ultimately engaged in. Because you understand you are going to be set up for accusations from here on forth from any group that is receiving more scrutiny or perhaps a denial. And that is one of the more amazing things, is that perhaps there hasn't been more denials of organizations applying for (c)(4) status who are clearly engaged in political activity and that is their main purpose for being.

So is the taxpayer advocate's office, do they have a role --

Mr. Werfel. Absolutely. And that is a big theme in the report, is that we want to involve the taxpayer advocate more clearly in all of these elements. In particular, one of the main concerns that I have is that when you look at the situation where we had taxpayers that were frustrated by the length of time that they were not getting an answer from the IRS, they were frustrated by the types of overly burdensome questions they were getting from the IRS, and they did have an avenue. And in many and in most cases they didn't exercise that avenue to go to the National Taxpayer Advocate, to raise greater awareness about the issue. The National Taxpayer Advocate has a track record of helping the public resolve matters before the IRS that the individual taxpayers is having trouble doing on their own. We didn't see that connectivity here, and one of the important recommendations in this report is to raise awareness and effectiveness of this framework of the National Taxpayer Advocate so we can solve those problems.

Mr. Kind. Mr. Werfel, you have a tough job as you go forward and obviously we are going to be looking forward to working with you very closely in your candid investigation and the recommendations before this committee. We, too, have a role to play as far as clearing up, I think, a lack of a clear definition as far as (c)(4) applications in that. I think IRS would be helped if there were brighter line rules for people to institute and more objective criteria that is used. And we will look forward to hearing your recommendations as we move forward on that front.

Mr. Werfel. Thank you.

Chairman Camp. All right. Thank you.

And we will now be moving two to one, so Mr. Gerlach and then Dr. Price.

Mr. Gerlach. Thank you, Mr. Chairman.

Thank you, Mr. Werfel, for being here today. My first question is, would you agree that IRS officials disclosing taxpayer information to outside groups or individuals is improper and in fact illegal?

Mr. Werfel. It is under section 6103, yes.

Mr. Gerlach. Okay. What is the process if there is an allegation that an IRS official did in fact leak taxpayer information to an outside group or individual, what is the internal process, if you can summarize it very quickly, for handling the investigation of that?

Mr. Werfel. Yes. We refer the information or the allegation immediately to the Inspector General. The Inspector General makes one of two conclusions: one, it was intentional, or two, it was not. If it was not then the next step is to figure out what process breakdown or control breakdown led to the unintentional release. We have those situations emerge and we make those process improvements. If the finding is that it

was intentional, then it is referred for further investigation, which could be criminal or some other type of disciplinary action.

Mr. Gerlach. Okay. Now, Mr. Brady raised the issue of the National Organization for Marriage and the fact that its Form 990 information from 2008 was disclosed and passed on to the Human Rights Campaign. Based upon the testimony that was given at our last hearing here on the committee by the representative from the National Organization for Marriage, what do you know about at this point the IRS passing that allegation to the Inspector General's office and what is the status of that investigation to the best of your knowledge?

Mr. Werfel. I have two responses. One, I am not aware specifically of that issue at my fingertips so that I can give you the exact process. Two, I would be concerned, since you are mentioning a specific taxpayer, that it may be more appropriate for me not to comment in this setting given it is the implication --

Mr. Gerlach. Has in fact the IRS passed or referred the matter to the Inspector General's office?

Mr. Werfel. Again, I don't want to comment specifically on this because I just don't have familiarity with that particular issue at my fingertips.

Mr. Gerlach. So to the best of your knowledge you don't know at this point whether it has or hasn't.

Mr. Werfel. I just don't know. I will say that at any given point in time there is a series of issues in this area that have been passed on to the Inspector General which are either in process for disciplinary action or in process where it was inadvertent and we are doing process improvements. Where this particular situation fits in, I don't know, but I can get that information for you.

Mr. Gerlach. Okay, if you would respond as soon as you are able to do that, that would be appreciated.

Mr. Werfel. Absolutely, I will.

Mr. Gerlach. I would also like to ask you, as a follow-up to Mr. Johnson's questions with regard to the amount of money, \$46 million of child care tax credit checks that were sent just to the one address in Texas. And in your comment you mentioned that on the issue of why checks are being sent for this credit, how do you verify the children in fact resided at that place of residence for at least 6 months, which is one of the requirements for that. You said it was hard to confirm that a child in fact is there for at least 6 months.

Mr. Werfel. Yes, there is no national childhood residency database, so it is one of the difficult aspects of enforcing that particular eligibility criteria.

Mr. Gerlach. So if that is one of the eligibility criteria and you cannot confirm that the child has lived there for at least 6 months, why are you sending out a check?

Mr. Werfel. Well, I didn't say it is impossible to confirm, it is just challenging, and therefore we have a higher degree of errors associated with that eligibility criteria.

Mr. Gerlach. So you acknowledge then the IRS has sent checks to individuals that don't meet the eligibility criteria.

Mr. Werfel. That happens, unfortunately. It is called an improper payment. We have way too many of them in the IRS and we need to work on that issue.

Mr. Gerlach. And so what disciplinary action have you taken as an agency against the individuals that have continued that practice?

Mr. Werfel. I have not taken any -- well, first of all, again, I arrived in late May. I personally have not taken any disciplinary actions. I am not sure disciplinary action would be appropriate in all circumstances in that situation.

Mr. Gerlach. In other words, individuals within the IRS that have the responsibility over the money that is released by the IRS back to a taxpayer, who is sending checks out, in this case \$46 million just to one address, not making sure the criteria for the eligible for that check is confirmed and still sending the money out, no disciplinary action has been taken against that individual or individuals responsible for that?

Mr. Werfel. Well, we would have to look further into the issue to see if a disciplinary action is warranted.

Look, we make --

Mr. Gerlach. Does any disciplinary action get taken in the IRS for anything that is done wrong?

Mr. Werfel. Absolutely. And unfortunately --

Mr. Gerlach. Can you share the amount of disciplinary actions taken against IRS officials and employees over the past year for improper conduct?

Mr. Werfel. In an aggregate way, yes. In a personal specific way that is covered by the Privacy Act and I would have to do that in another setting, but I can share that information with you, just not with the public.

Mr. Gerlach. Okay. Well, if you can share that with the committee I am sure interested the committee members would be interested to see when in fact a disciplinary action is taken under and what circumstance.

Mr. Werfel. And I would point out that I have been at IRS for a short time, I have already taken a number of disciplinary actions within the IRS. So I know for a fact they do go on and I have personally been involved in several of them.

Mr. Gerlach. Thank you, Mr. Werfel, appreciate it.

Yield back.

Chairman Camp. Thank you.

Dr. Price.

Mr. Price. Thank you, Mr. Chairman.

Mr. Werfel, this far down the panel it is hard to say welcome, but welcome.

Mr. Werfel. Thank you.

Mr. Price. You are 34 days into your challenge, and we appreciate that. I think all this committee is asking and all the American people are asking is that you be honest and forthcoming.

Mr. Werfel. Always.

Mr. Price. In that light I would suspect you agree that the IRS process has been broken, would you not?

Mr. Werfel. I would agree with that.

Mr. Price. Would you agree that the trust with the American people in the IRS has been violated?

Mr. Werfel. I would agree with that.

Mr. Price. Mr. Werfel, the IRS has targeted groups, it has leaked information on donors of groups, and then targeted those donors for auditing. This is chilling stuff. As Mr. Roskam said, this is the kind of thing that frightens his constituents. It concerns and frightens my constituents as well.

The chairman asked you if you had spoken to a number of people in the process of your investigation. Former IRS Commissioner Shulman, you said no. Former Acting IRS Commissioner Mr. Miller, you said no. And then Sarah Hall Ingram, you said, yes. Who is she?

Mr. Werfel. Sarah Hall Ingram runs the Affordable Care Act operations within the IRS and I speak to her on an ongoing basis as part of my responsibility to engage with my senior leadership team on the ongoing operations of the IRS.

Mr. Price. What was her role during this period of time, during the period of time in the Tax Exempt --

Mr. Werfel. It is a good question and that is one that we are looking at, and I will do my best to explain it right now. Ms. Ingram was the Commissioner of the Tax Exempt/Government Entities organization leading into when these events occurred. So the IG report starts to surface issues in and around early, let's say, March 2010, is when this fact pattern begins on the IG timeline.

It is my understanding that Ms. Ingram served as the Commissioner of tax-exempt/government-exempt organizations, which is a level above the Exempt Organizations unit, and that org chart is in my report. And she served in that capacity until somewhere around the spring or summer of 2010.

Mr. Price. So there was an overlap.

Mr. Werfel. So there is an overlap. At that time she moved over and was detailed over to begin her work in running the Affordable Care Act.

Mr. Price. Let me ask why should the American People believe that the trust that is required between the Internal Revenue Service and the American people on the implementation and enforcement of the Affordable Care Act by an individual who was involved in the tax-exempt status entity of the IRS during this time in question, why should they trust that individual?

Mr. Werfel. Well, I would ask the American people to do is to trust in the process that we are going through to make sure we are getting to the bottom of this. And with respect to --

Mr. Price. Mr. Werfel, you understand that the process that the IRS has gone through has violated that trust with the American people already. And candidly, my constituents and I believe the vast majority of the American people want every individual who was involved in this process to answer the questions prior to being able to have any further trusting situation in their capacity in the Internal Revenue Service. Is that too much to ask?

Mr. Werfel. I think it is valuable input. I would like to share what we are doing, which is analyzing for any employee -- and Ms. Ingram is no different -- we are analyzing what their footprint of responsibility was. And with respect to this individual there is some complexity in doing that evaluation because she did move

over to the Affordable Care Act early on. But at the same time, just in the interest of full candor, while she did move over to the Affordable Care Act within only a few months after this fact pattern begins, her title didn't change and there is some lack of clarity in terms of her ongoing role within TEGE.

Mr. Price. And hence the concern that many of us have.

To that point --

Mr. Werfel. We are looking into that question --

Mr. Price. To that point, the IRS is the enforcement arm for the ACA. Have guidelines been promulgated for the enforcement of the employer mandate in the IRS?

Mr. Werfel. Not at this time. I think the schedule for the proposed rules is this summer, if I understand your question correctly.

Mr. Price. And employers have to comply with this beginning in this fall and January 1. Have rules been promulgated?

Mr. Werfel. Well, the proposals will outline the timing for employer responsibilities.

Mr. Price. Have rules been promulgated on part-time, full-time employee distinction?

Mr. Werfel. I don't know that I --

Mr. Price. Have rules been promulgated on the difference between seasonal workers and part-time workers?

Mr. Werfel. I will give you the full schedule of our ACA rules footprint. I don't have it at my fingertips.

Mr. Price. Mr. Werfel, there is a huge lack of trust in the IRS, and to have the IRS now the enforcement arm over the Affordable Care Act is extremely concerning for those of us on this panel and our constituents. I would urge you -- urge you -- to get this information to individuals who will have to comply to all of the rules that you promulgate and make certain that they are true to the letter of your rules as soon as possible.

Mr. Werfel. I understand.

Mr. Price. Yield back.

Chairman Camp. Thank you.

Mr. Pascrell.

Mr. Pascrell. Mr. Chairman, thank you.

Mr. Werfel, it appears after the time that you have been here this morning that we are not past the point where Members of Congress would be speculating about enemies lists, cultures of corruption, and Nixonian conspiracy theories. I mean, if you took the last set of questions to you -- first of all, I wonder why in God's name you took this job in the first place at this point in your life. You have a distinguished past, very distinguished past.

But if I took the last series of questions, if you want to talk about a conspiracy theory, the person is not even in front of us to ask direct questions to that young lady. Now everything is open, ask questions about anything, I understand that, and both sides of aisle seem to be against, appear to be against singling out any particular groups because of their political thinking. This is what we are opposed to.

Mr. Werfel. Yes.

Mr. Pascrell. This is what we are opposed to. So I commend you for standing up, standing tall, and I wish you success in your job. I think you are trying your best.

In your report you announce that in order to deal with the backlog of applications for 501(c)(4) status the IRS will allow the option for groups to get preliminary approval if they self-certify -- self-certify -- that they devote more than 60 percent of their spending and time on things related to social welfare, to go with no more than 40 percent on political activities. Is there any reason that this is not the existing standard for all 501(c)(4) organizations?

Mr. Werfel. It potentially could be. What we thought would be appropriate was we have a situation with an overdue backlog. We have a situation in which we clearly have had struggles to effectively implement the current regulation of primary. We came up with this self-attestation program because we thought that it would be less burdensome on the taxpayer and still effective in meeting the underlying regulation of primary. But we haven't broadly applied it across all 501(c)(4) --

Mr. Pascrell. How did you arrive at the 40 percent in the first place?

Mr. Werfel. Keep in mind that the IRS' role here is to implement the laws and regulations as clearly and as effectively as possible. We have this word "primary," and so we sat down with it and we said, what is the most plain language understanding of primary that we can defend? And we came up with the conclusion that if you are north of 50 percent --

Mr. Pascrell. Who came up with that?

Mr. Werfel. The IRS. We sat down and we talked through it, and we briefed committees and others on this before we issued it in final, that if your activities are greater than 50 percent you are clearly not primary, okay, if your political intervention is greater than 50 percent.

If you are less than 40 percent we would think that you are in a comfortable safe zone of not being in that primary range. Between 40 and 50 percent it gets tougher, and therefore if you are a taxpayer and you believe that your expenditures are somewhere between 40 and 50 percent you wouldn't attest, you would go through the traditional review and we would take a close look to make sure --

Mr. Pascrell. And that is why people apply to you, in order to obtain this status.

Mr. Werfel. Yes.

Mr. Pascrell. And you determine from what they give you, the information they give you as to whether or not they are more than 40 percent involved in whatever political culture there exists.

Mr. Werfel. Essentially we are trying to figure out what this primary means and what we are offering with the self-attestation is some inherent structure to how we can think about --

Mr. Pascrell. Now, once that organization receives approval, will they be able to increase their political activities beyond the 40 percent of their spending and time? That is part of the application.

Mr. Werfel. If they do that then they are no longer operating under an approval and they have to alert the IRS that they have changed the nature and extent of their activities.

Mr. Pascrell. But they are allowed to continue?

Mr. Werfel. They are allowed to continue. And the reason why they are allowed to continue is because one of the key points here is that you can operate as a 501(c)(4) today without an application. There are two different types of entities that are operating as a 501(c)(4), those who have an application approved and those that never applied but just file the appropriate forms and operate as 501(c)(4).

If you exceed your 40 percent after attesting, you just move yourself into that second category where you are operating without an approved application and you are joining many other 501(c)(4) taxpayers that are doing that today.

Mr. Pascrell. So the exemption is very important in terms of revenue. The exemption is more important to decide whether it is more than 40 percent or less than 40 percent. And if you go over 40 percent, you simply have to file a form with the IRS.

So there are, I can assume then in conclusion, other organizations out there that are performing more than 40 percent or maybe more than 50 percent in the political area and are being exempt from taxes.

Mr. Werfel. I think --

Chairman Camp. Time has expired.

Mr. Werfel. Okay.

Chairman Camp. So just answer briefly.

Mr. Werfel. I would say if they are performing more than 50 percent, then my hope would be that we would have an effective exam and audit process that would identify that and work with the taxpayer to correct it.

Chairman Camp. Okay. Thank you.

Mr. Buchanan.

Mr. Buchanan. Thank you, Mr. Chairman.

And I also want to thank Mr. Werfel for being here today. I want to recognize also you have been 34 days on the job and from what it appears you have had a great background.

Let me ask you, because I think you got cut off, you were going to mention, looking at your resume here, they put up here, you manage an agency of 90,000 employees. Your budget is about \$11 billion a year. And I think you are asking for additional dollars. And part of the reason you wanted the additional money from the taxpayers is you said a dollar invested in enforcement gives you back such a return. What was the numbers you were going to tell us about that, why you need the additional money?

Mr. Werfel. We have asked for an increase on our enforcement budget of \$412 million that would yield more than \$1.6 billion in annual enforcement revenue, which is a return on investment of \$6 for every \$1 invested. And I understand the concern about our excessive expenditures that occurred back in 2010 and 2011, and to the extent --

Mr. Buchanan. Let me just go back, because we only get 5 minutes each. But for every dollar invested, you can get \$6 back, is that what you are saying, from the taxpayers?

Mr. Werfel. Yes, that is what I am saying.

Mr. Buchanan. Now, you have heard the saying a power to tax is a power to destroy. And I can just tell you that there seems to be a culture, at least from what I have heard, I have been here a little over 6 years, in the IRS there is a lot more money being put in enforcement. And you can destroy people's lives. I think you have got to understand that, the power, the leverage, the magnitude of the IRS, 90,000 employees, \$11 billion in budget. It is not even a level playing field for individuals. And I look at a lot with small businesses.

What I am hearing from my constituents, when you look at you want more money to go after more Americans, they are very, very concerned because it seems like that has been ramped up in this environment. I am just telling you what I hear every day.

Mr. Werfel. Yes.

Mr. Buchanan. In this environment of trillion-dollar deficits, people are feeling like the IRS is a lot more aggressive about coming after organizations, especially small businesses and individuals, because at the end of the day you can win every time. You can say, we will go to court. Well, you need more CPAs and more lawyers. They run out of money. You never run out of money or resources.

Go ahead. Answer that, if you would.

Mr. Werfel. Well, you are raising an important question. And I will go back to the report, if I could. You know, it is a question about taxpayer concerns. And we have heard those taxpayer concerns. I think it is notable that in this report we are candid about organizational and individual failures within the IRS. We are not claiming that nothing went wrong here, we are recognizing that there were significant problems. And we are also recognizing that this represents an opportunity to learn from that.

Mr. Buchanan. Let me go back, just because of our limited time, I want to get another question out.

Mr. Werfel. Yes, I understand.

Mr. Buchanan. Let me ask you, in terms of yourself, it says you manage 90,000 employees. Is that a correct statement?

Mr. Werfel. I lead an organization that has roughly 90,000 employees.

Mr. Buchanan. Who is responsible for the attitudes and the culture and the environment at that organization.

Mr. Werfel. It is a shared responsibility of the leadership team at the IRS and the staff, but I place a lot of importance on the leadership driving --

Mr. Buchanan. You are one of the leaders, right?

Mr. Werfel. I am one of the leaders.

Mr. Buchanan. I am just saying, with 34 days, I recognize that, I just want to make sure that you have got a balanced approach going forward, that you don't create an attitude or a climate in the IRS about going after Americans. I am very concerned that it is more of a balanced approach.

There is a sense out there that that has been heightened, not just in the last 3 months, but in the last 5 or 6 years. And there is a sense that we have got to make sure that if you are looking for more money to go after more Americans, because you get a 6-on-1 return, I will tell you, you are going to win at every turn. They can't begin to compete with the IRS with the leverage and the power that you have.

And that is why it is so important as a leader going forward, and your team of leadership, is that that has something that makes some sense, that we are not killing small businesses and as a result killing jobs.

Mr. Werfel. Let me make one final point. In this report there is a direct commitment to address that question by doing a review across all IRS of the appropriateness of our criteria and our filters and our activities. Hold us accountable for the thoroughness and objectivity of that review, and in the report we are going to share the results of that with you and with the American people so that we can answer the question.

Mr. Buchanan. But you understand it is not a leveraged playing field, right? You realize if you want to win at the end of the day, you are going to win. And because they run out of money. They would like to get their day in court or they would like to resolve it, but they can't afford what it costs to get their day in court. So I am just telling you as someone that has seen that environment, and what I hear every day, you have got to be very careful on how you move forward in terms of going after Americans.

Chairman Camp. All right. Thank you.

Mr. Smith.

Mr. Smith. Thank you, Mr. Chairman.

And thank you to the Commissioner today.

How long have 501(c)(4)s been around?

Mr. Werfel. I am not exactly sure, but it is decades.

Mr. Smith. So they have been around a while.

How long do you think an application should reasonably take for approval?

Mr. Werfel. We have a standard of 120 days.

Mr. Smith. And, obviously, many of these cases exceed 120 --

Mr. Werfel. Yes, absolutely. And that was unfortunate and needs to be fixed.

Mr. Smith. And you have indicated that no intentional wrongdoing has taken place to your knowledge?

Mr. Werfel. Again, the evidence hasn't surfaced yet. But I would caution that more analysis, review, and investigation is needed.

Mr. Smith. So that would be an inconclusive finding in terms of the --

Mr. Werfel. Right. In other words, if the taxpayer is going to ask us has there been any evidence yet, we are going to say, no, not yet, but more needs to be done. So that could be termed inconclusive. I am not going to argue with that characterization.

Mr. Smith. And sifting the many documents that we have had over the last few weeks, we know that there have been very exhaustive lists of questions asked of applicants. Is that correct?

Mr. Werfel. That is correct.

Mr. Smith. And we are talking about requesting lists of books read and reports associated, and requesting membership lists, volunteer lists, whether or not an applicant intended to run for office or a family member of theirs would run for office. Would you agree that it took a vast number of resources to even come up with those questions?

Mr. Werfel. I don't know how many resources it took. But I would agree that we needed to stop asking a great number of questions that we were asking and revisit and change how we approach our outreach to taxpayers.

Mr. Smith. Okay. And I appreciate that. It just strikes me as difficult to sort through all of this when, you know, we are being asked for more resources for the IRS when it would seem to me that there were some existing resources, perhaps, that were misappropriated, certainly misapplied as it relates to the overreach in terms of asking applicants the questions.

And so moving forward I would hope that we can accomplish our objective of reducing the complexity of our Tax Code that I think leads to this very situation in terms of the complexity leading to the misapplication of resources.

Thank you, Mr. Chairman. I yield back.

Chairman Camp. Thank you.

Mr. Crowley.

Mr. Crowley. Thank you, Mr. Chairman.

And thank you, Mr. Werfel, for being here today.

After the first hearing on the IRS which we had on this committee, the chair highlighted a, and I will quote, "a culture of intimidation." A culture of intimidation. At the time, I think he was referring or hinting that this culture was coming from the White House, a claim that I believe was made without merit or evidence.

As the weeks have gone on, we have seen that there is a culture of intimidation, but not from the White House, but rather from my Republican colleagues. We know for a fact that there has been targeting of both Tea Party and progressive groups by the IRS. But this was not divulged by the Treasury IG in his audit of the IRS. The IG didn't even give us a hint that progressive groups were targeted until committee Democrats dug further and deeper into this investigation.

My fear is the IG, an appointee of George W. Bush, and a former committee staffer of the Oversight Committee chaired by Darrell Issa, drafted a report that suited Chairman Issa's personal ideology and not the facts of the case.

We then saw members of the majority party make baseless claims about a so-called White House enemies list and ideological election year targeting. Again, all false. In fact, we know Congressman Issa knew about the targeting investigation in the summer of 2012, well before the national elections occurred.

Does anyone think for a moment that if there was a White House targeting of conservative groups before the 2012 elections that Chairman Issa wouldn't have said anything about that, that he would have sat back and said nothing about that?

Then, as we see, progressive groups were targeted side by side with their Tea Party counterpart groups. The chairman of this committee excused that, in my opinion, both in public releases as well as again here today in his opening statement. There has been no outcry by the chairman or my Republican colleagues when progressive groups were also targeted over the past 3 years.

I will point out in this May 21 testimony of Holly Paz, who was interviewed by the committee, both this committee and the Oversight Committee, when she was asked the question concerning the Tea Party investigation and their being investigated: And did you raise any -- and did it raise any questions with you? And her answer was, and I quote, "No. In the office, you know, it is not uncommon for people to have a shorthand reference to cases by name. And I was aware of, you know, other cases at that time that were working their way through the D.C. office that involved proposed denials of exemption to liberal organizations that supported the Democratic Party. So I had no indication that we were not being balanced in what we were doing."

Our committee knew that testimony was given and yet there was no outrage, just as there was no Republican outrage when the Bush administration targeted Christian churches and the environmental groups and the NAACP between the years of 2002 and 2004 when they were being investigated by the IRS.

So, yes, I agree that there is a culture of intimidation going on, but it is not by the White House, it is by my Republican colleagues. That is why we demand that the IG be summoned back to this committee to answer questions once again under oath. We also demand that the Republican culture of intimidation stop so progressive groups will feel comfortable testifying before us here. But right now they are not comfortable coming before this committee. And the chairman's continued silence or excusing of the abuse of progressive groups makes it harder for these groups to come before us.

We need to be a committee of facts and not a witch hunt if we plan to get to the bottom of the investigation and hopefully be able to tackle other legislative issues that we have coming before this committee of great importance to the country. So I demand that this Republican culture of intimidation against progressive groups be stopped and that they be as outraged as we were outraged, Democrats were outraged, and we expressed our outrage when groups that we don't agree with politically or ideologically were being attacked or being intimidated or being investigated by the IRS. I would like to see a modicum of a similar outrage by my Republican colleagues for what we held when folks testified before this committee --

Chairman Camp. The gentleman's time has expired.

Mr. Crowley. -- that we don't politically agree with, but we stood by them and said, as Americans, they should not be investigated.

Chairman Camp. The gentleman's time has expired. And I would just refer the gentleman to my opening statement where I mentioned that progressives were on the Be On the Look Out list, or the BOLO list.

Mr. Crowley. Will the chairman yield?

Chairman Camp. No, I will not yield.

Mr. Crowley. Where is the outrage, Mr. Chairman?

Chairman Camp. I will not yield.

Mr. Crowley. Where is the outrage?

Chairman Camp. I thought you were talking about the sort of the modicum of this committee, and yet the gentleman continues to interrupt the chair. You have had your 5 minutes. You referred to me by name as the chairman, and I am going to respond. And I would refer the gentleman to my opening statement, where I mentioned that progressives were on the Be On the Look Out list. And I made one thing clear, that no taxpayer, regardless of political affiliation, should be unfairly targeted.

With that, I will yield to Mr. Schock of Illinois.

Mr. Crowley. That is more like it.

Mr. Schock. Thank you, Mr. Chairman. Before I begin my questioning, I think I would just say that I think the chairman has been more than accommodating, more than outreaching to the other side. In fact, if the chair would indulge, when we had our first hearing where we invited witnesses who were victims of targeting, the chair asked for witnesses from the minority, and would the chair remind us how many minority witnesses were submitted?

Chairman Camp. There were none.

Mr. Schock. Thank you.

Mr. Werfel, welcome.

Mr. Werfel. Thank you.

Mr. Schock. On page 14 of your report that you have submitted to this committee you outline a proposal to eliminate the backlog of certain 501(c)(4) applicants that are currently before the IRS. You specifically suggest that to eliminate this backlog you ask for these 501(c)(4) applicants to certify under penalty of perjury to the IRS that no more than 40 percent of their expenditures and volunteer hours will go towards political campaign activity and that the remaining 60 percent would go to the promotion of social welfare. If that is certified by the 501(c)(4) applicant, it is your policy, then, that the applicant would be approved in the next 2 weeks.

Mr. Werfel. That is correct.

Mr. Schock. I would like to bring your attention to a specific case and ask for how that would fall under this category. Specifically, the 60/40 rule that you are proposing.

Mr. Werfel. Is this a hypothetical case?

Mr. Schock. No. This is a real live, 48-hour-ago case.

Mr. Werfel. Well, I might have difficulty in answering it if it is about a specific --

Mr. Schock. Well, let's try. On Tuesday, the President unveiled his plan to cut greenhouse gas emissions. Within hours, millions of emails were sent to his reelection campaign supporters through BarackObama.com, the URL owned by Organizing for Action, a 527 organization. Within the email, it asks

on its volunteers to, quote, "call out via Twitter, email, letters, Facebook, and so on, Members of Congress who are so-called, quote, 'climate change deniers.'" The action item doesn't just suggest they should educate, but rather that they should call them out. It then links to 85-plus Members of Congress that they would like to be targeted, all of whom are Republican, many of whom are on this committee.

Under that circumstance, I am wondering whether or not that activity, those hours and that money, would be classified under the political campaign activity or under the promoting social welfare category.

Mr. Werfel. It is a good question. You are getting into a territory where I am not the legal expert. But I will do my best to provide some clarity as far as I understand this and the rule of law here.

It is my understanding that the political campaign intervention has to do with -- and I am answering these questions as a broad matter because I don't want to get into 6103 issues or the specific taxpayer. So I just want to qualify that my answer is in the broad context of how we think about political campaign intervention. And the key issue is, is the entity seeking (c)(4) status attempting to influence the outcome of an election by either supporting a particular candidate or opposing a particular candidate. And the Federal Election Commission has provided guidance to help us on that.

And when you have a situation in which, for example, an ad mentions a candidate within 30 days of an election, they say, well, there you go, at that point in time you have political campaign intervention. But if they mention that candidate 120 days before an election, it is not as clear and more work needs to be done.

So to get to your question, I think as a broad matter one of the first questions I would have in analyzing it, and I think the lawyers who are experts in that, was is there a candidate involved and is the activity intended to influence the outcome of an election.

Mr. Schock. Well, there are 85 members of Congress specifically targeted.

Mr. Werfel. Again, now you are getting into -- I don't want to get too specific.

Mr. Schock. Well, I understand you don't want to get too specific. But the point I am attempting to make is that the rule you are proposing requires the applicant to make a determination.

Mr. Werfel. Correct.

Mr. Schock. And so as the Commissioner of the IRS who is proposing the rule, under not a hypothetical but a real case situation, if you can't make a determination how can we then ask a non-attorney, non-IRS Commissioner, non-IRS employee to make that same determination under penalty of perjury to classify their activity as either advocating for promoting social welfare or political campaign activity if we are going to limit it under a 60/40 rule?

Mr. Werfel. Right. I was talking at a very general level. There is specific guidance that we can provide in our application and in the self-attestation that we ask the taxpayer to look at and determine whether they are meeting the criteria. You know, right now, me articulating it to the taxpayer is actually done in much more specificity in the materials that the taxpayer receives in terms of exactly how to answer those questions.

The key issue is, are they attempting to influence the outcome of an election. Now, you take it from there and do you further analytics, and then the taxpayer can help determine whether they believe their expenditures will go higher than 40 percent for those types of activities.

Mr. Schock. I realize my time has expired. I would just like, if I can, follow-up from the IRS on exactly how this new rule would then be enforced, whether it be additional auditing, whether it would require additional personnel to enforce, and all that would be helpful.

Mr. Werfel. And I can provide for the record the more specific guidance that we give the taxpayer. It was just handed to me. But it might not be in the best interest to read it out loud.

Chairman Camp. No. I think you can submit it to the committee and we will make it available.

Chairman Camp. Mr. Paulsen is recognized.

Mr. Paulsen. Thank you, Mr. Chairman.

Mr. Werfel, you opened your report with TIGTA's findings that the IRS used inappropriate criteria that identified for review Tea Party and other organizations applying for tax-exempt status based on their names or policy positions.

I am going to ask you this question: Were some of the organizations that were targeted for their personal beliefs, were they asked for their donor lists?

Mr. Werfel. It is my understanding that roughly 27 entities were asked for their donor lists, yes.

Mr. Paulsen. Do you know if these donor lists were used to target individual donors in the IRS for audits?

Mr. Werfel. I don't have precise information on exactly how that information was used. I think that is part of the ongoing review.

Mr. Paulsen. Well, the reason I am asking this is because part of the report, on page 31 of the enforcement section of the report, it states that, "All current indications are that this sort of political activity analysis, ambiguity, and subjective utilization of criteria does not occur elsewhere in the IRS." It seems pretty definitive. I mean, how can you be sure that is the case?

Mr. Werfel. I was referring to was, there are four main operating divisions within the IRS that deal with tax administration. The one that is the subject of this audit report is the Tax-Exempt Government Entities organization. The conclusion that is reached in the report is right now in areas, for example, in our Wage and Investment Division, which deals with individual taxpayers, small business and large business, those areas, we don't have current evidence that the criteria in the screening criteria are inappropriate. We have asked our leaders to look at it. We are going to run a thorough review. And as I said, one of the main reasons why we can be more reassured in that conclusion is that it is very rare, outside of this part of IRS, that political activity is relevant to any determination.

Mr. Paulsen. Well, I would assume that many of these issues should be considered rare to occur in the first place. I know that there is a publication, it is the Declaration of Taxpayer Rights, it was also part of the report you submitted, it states right up front, "Protection of your rights. IRS employees will explain and protect your rights as a taxpayer throughout your contact with us. The IRS will not disclose to anyone the information you give us except as authorized by law." We know that that has already been violated and that information has been leaked publicly.

"You have the right to know why we are asking you for the information and how we will use it." We know that that also has not been followed through because these organizations testified before this committee that they asked the IRS why certain information was being asked for and there was no response for follow-up.

And I will just tell you that I also have constituents, many Minnesotans that are in my district who are also very fearful, who have come forward to me concerned that they also have become targets because in recent years -- of audits that have been stepped up by their accountants, their finance planners. They are concerned that it is happening because of their political activity. This has all occurred over the last couple of years.

And other Members of Congress on this committee and in the entire body have expressed the same concern.

Several have told me these personal stories of their accountants telling them, we have never, ever in the history of our experience -- we keep the receipts, we keep the books clean, we monitor your activities -- we have never had this type of systematic auditing on an individual to this level before.

And so we now know that information on individual donors has been collected, we know that information has been leaked, and we know that these audits have intensified on individuals. And I think, from my perspective, the report before us has some glaring omissions. That is going to have to be a follow-up report coming down the road. And in the end what assurance can you give the American people, can you give this committee, to making sure that individual taxpayer rights are being protected and there is a plan in place to make sure that that will happen?

Mr. Werfel. Two reactions. One, to the extent -- I probably should have said this earlier to this committee and to the chairman -- to the extent there are particular areas in the report and questions that aren't answered, me, along with the IRS would be very interested to have that feedback and would commit to exploring those questions with this committee and figuring out the best way to get answers.

Our goal with this report was several things. First, to recognize for the taxpayers, part of our reassurance and our path forward is to recognize our failures upfront, to recognize that we made fundamental mistakes. There are more questions to be asked about the nature of how those mistakes occurred, but we recognize those mistakes exist.

We want to show the American people in this report that we recognize them and we are putting together and actively implementing corrective actions to move forward. We have brought in experts of public sector management to help lead the IRS going forward on these new activities. And some of those activities involve reviewing our current operations to ask the very questions you are answering.

Mr. Paulsen. So, Mr. Werfel, let me just ask you this, as my time runs out. But there are several employees, and you have described how you have to go through appropriate procedures, but are you seeking the removal right now of Ms. Lerner or any other individuals? And does Congress need to have legislative changes that would allow you to hold these employees accountable so that we can make sure that the trust is restored for the American people?

Chairman Camp. And if you could just answer briefly.

Mr. Werfel. Yes, I will answer in two ways. One, with respect to a specific employee, I can inform you of our current actions, I just have to do it in a nonpublic setting to protect that employee's privacy rights.

Secondly, you know, as I said earlier, there are due process procedures in place that are put in place for Federal employees with respect to how their discipline or potential removal are handled. I am not going to comment on whether they are good or bad. I am saying right now that I am following the rule of law and moving as aggressively as we can.

Chairman Camp. Thank you.

Ms. Sanchez is recognized.

Ms. Sanchez. Thank you, Mr. Chairman.

Mr. Werfel, I want say my appreciation for you being here and answering these questions. I know you have been on the job roughly a month. And I am sorry, but some of my colleagues seem to be confusing you

with the main decision maker at the IRS. So just to clarify a little bit, you are not personally responsible for things like tax refund abuses or conference spending abuses or bonus abuses, that is not your position, is it?

Mr. Werfel. No. And I want to stand by my IRS colleagues. I am here to make sure that any actions that occurred before I got there that need correcting are getting correcting. And that is my role.

Mr. Sanchez. Thank you. Because I just think you are an easy target. Nobody really likes the IRS, and so it is easy to throw a lot of different issues at you when we are specifically here to talk about the tax-exempt applications and to the process that went on there.

Now, you are still investigating that matter, right? Your initial 30-day report is not a final report. Is that correct?

Mr. Werfel. Right. And there are several entities that have ongoing investigations, yes. They are still underway.

Ms. Sanchez. Including potential criminal investigations, is that not correct?

Mr. Werfel. The Justice Department is actively looking at that right now.

Ms. Sanchez. And I think you have stated numerous times, and people have said that you have seemed a little dispassionate. But there are rules that you need to follow as you investigate these allegations, is that correct?

Mr. Werfel. I don't feel dispassionate. I feel very concerned. And I think the report has some important language about failures of leadership and management that are very critical.

But, yes, that concern and that sense of urgency which I certainly feel has to be balanced against these procedures that need to take place because they are legally required. And I can't reinforce mistakes that the IRS have made in the past with new mistakes of not following appropriate procedures that are required by law and regulation.

Ms. Sanchez. I appreciate that, because I have a legal background, and maybe others on the committee don't appreciate that. But I would just like to point out that, you know, Wild West vigilante justice was often swift, but it was not always correct, nor was it always fair. And I think that probably compounding some of the potential failures at the IRS would be mistakes in how the investigation is handled, and if it were to be done hastily and not thoroughly I don't think that that serves the American public.

Mr. Werfel. I would be right back here before this committee answering tough questions of how we didn't handle the investigation fairly. So we are going to do things by the rule of law.

Ms. Sanchez. I appreciate that very much.

Now, your initial assessment in the preliminary report is that perhaps some inappropriate criteria was used by a group of IRS officials in selecting certain applications for further review. Is that a fair statement?

Mr. Werfel. Yeah. That is our finding, that there were inappropriate criteria used. It is similar to what the IG found.

Ms. Sanchez. And if during the course of your continued investigation that assessment were to change, that would be in an updated report, I am assuming.

Mr. Werfel. Yes. My hope is that the type of information we garner helps us understand better the nature and circumstances that led to these inappropriate criteria being used.

Ms. Sanchez. Thank you. And I very much appreciate in your initial report the identification of certain areas of failures at the IRS and also certain suggestions moving forward and ways that you can make the process a fairer and sort of more transparent one.

One of the things that I wanted to ask you about, because it is something that perhaps is little known, your report suggests that the taxpayer advocate's office could have helped exempt organizations that were struggling to have their applications processed by the IRS. Is that correct?

Mr. Werfel. That is correct. The National Taxpayer Advocate can play a very critical role helping a taxpayer who is having trouble resolving their matter before the IRS. They do a very effective job in many situations. I think, in looking at this situation in particular, we noted a very small or de minimis amount of contact between the taxpayers, the 501(c)(4) applicants who were receiving unfair or burdensome requests and all of the things they went through, there is a lack of connectivity between them and the National Taxpayer Advocate. And that is a lesson learned for us, and we want to try to educate taxpayers better on the avenues they have to help when they are having trouble resolving a matter with the IRS.

Ms. Sanchez. And do you think that a broad education project to make people aware of the fact that there even is a taxpayer advocate would be beneficial?

Mr. Werfel. That is one of our recommendations in our report. We are committed to it.

Ms. Sanchez. And now much has been made about the funding and how the funding is spent at the IRS, and there has been a request for additional funding for enforcement. But one thing that I am hearing from my colleagues on the other side of the aisle is, on the one hand, they want you to enforce these people who are cheating on refunds, and they want you to, you know, come down hard on people who are abusing the Tax Code, but, by the same token, they don't want to pay for that. And then, on the other hand, too much enforcement pits the little guy against the IRS --

Chairman Camp. A quick answer, please.

Mr. Werfel. Very brief answer. What I want is an opportunity to do before this committee and others, is demonstrate two things. One, that the IRS is making real progress in eliminating unnecessary expenses and cutting our budget in areas like travel, conferences and others. And two, that if we can increase our funding in other critical areas related to enforcement and taxpayer service, that we are going to position the IRS for success in the future.

Ms. Sanchez. Thank you.

And thank you, Mr. Chairman.

Chairman Camp. Thank you.

Mr. Marchant.

Mr. Marchant. Thank you, Mr. Chairman.

Mr. Werfel, in one your first days on the job I wrote a letter addressed to you requesting that you find out the status of a group in my district, the North East Tarrant County Tea Party. Is it your representation that over the next week or 2 weeks that this organization will receive its determination?

Mr. Werfel. Let me answer that question very carefully, since you have named a particular taxpayer, and I have to be very cautious. I will lift up your question and say that all taxpayers that are in our priority backlog who are in this advocacy group that are in the backlog for more than 120 days will receive a letter from the IRS this week explaining their option to self-certify and get an expedited approval if they are willing to self-certify.

Mr. Marchant. This particular group joined in a lawsuit with the ACLJ. Will that lawsuit have any effect whatsoever on the determination of that group or any group that is inside of that --

Mr. Werfel. Two responses. One, I definitively don't want to comment on the lawsuit. Secondly, I will just repeat my earlier point: If they are in the backlog, they are getting the letter.

Mr. Marchant. So there will be no retribution for a group that joined in that lawsuit?

Mr. Werfel. It would certainly be the policy of the IRS to not have any type of retribution in those situations. If there is an entity that is in the backlog, it is our intention to send them this letter. And if they don't receive the letter, for whatever reason, then they should immediately -- and they can reach out to you or this committee or reach out to the National Taxpayer Advocate, and we will look into it. But, again, our intention is to try to get every entity within that backlog, to the extent appropriate, a letter.

Mr. Marchant. On February the 11th, a subcommittee that I serve on, chaired by Mr. Boustany, wrote the Acting Commissioner a request to produce a "Star Trek" parity video that contained no training content and was produced at taxpayer expense. The subcommittee also asked for the cost of the "Star Trek" video and any other video produced with IRS resources. Two months later, and three letters later, we had the "Star Trek" video and the cost estimate in hand. Turned out that that video was produced as entertainment for the famous IRS convention that is mentioned.

Imagine the committee's surprise when late on Friday, May 31, I believe after you had taken over, in an effort to get ahead of the TIGTA report expected the following week, about the IRS' lavish spending at this conference, it turned out that this video, depicting line dancing and of IRS employees, was also produced in the 2010 conference.

It was wrong for the IRS not to undertake a good faith search in February for other responsive material, but that was not on your watch. When was the second video brought to your attention?

Mr. Werfel. Very early in my term. I arrived on May 22, May 23. It was one of the earlier issues that was raised to me. It was my understanding that this committee had a request for our videos and we were delivering that.

Mr. Marchant. Did you produce it immediately to the committee?

Mr. Werfel. It is my recollection that once I became aware of it and we had it in hand and it was requested by the committee we provided it. I think there may have been a need to redact some of the names on it to protect personal privacy. But, yes, I think we turned that video over to you very quickly.

Mr. Marchant. And did you or others in the IRS directly consult with the Treasury on how to produce that video to Congress?

Mr. Werfel. How to produce it? I am not aware of us consulting with the Treasury Department on how to produce it. But I necessarily don't understand your question.

Mr. Marchant. Well, let me follow up. The lack of transparency pertains to just a silly video -- and, being from Texas, very bad line dancing.

Now, for something really more consequential, Chairman Boustany wrote then Acting Commissioner Steven Miller on May 10 to ask about all documents containing the word "Tea Party" and a list of IRS employees involved in the targeting. You wrote back on June 7. Did you consult with the Treasury on any of the correspondence that you had with the committee before you responded?

Mr. Werfel. I talked generally to the Treasury Department about our correspondence with the committee to make sure I am giving them an update on the various requests we are receiving and how we are producing information. I don't have a particular recollection that we talked about this letter.

Chairman Camp. All right.

Mr. Werfel. But generally we do talk about discovery requests that we get from Congress.

Chairman Camp. All right. Thank you.

Mr. Marchant. Thank you.

Chairman Camp. Ms. Black is recognized.

Mrs. Black. Thank you, Mr. Chairman.

And thank you, Mr. Werfel, for being here and helping us to work through this situation.

I want to start out by saying that the very basis of any relationship is trust. And we certainly see here that the trust has been broken. There is no doubt about that. I think prior to all of this being revealed over the last several months here, if you had asked someone, what kind of reaction do you have if you get a letter from the IRS, they would have already said, I have fear, they are so powerful that even if I haven't done something intentionally, they are going to come down on me, it is not an organization that helps you work through something if you haven't done it properly. A lot of uncertainty. I can call one day, get one answer, the next day and get another answer.

So there was already this image of the IRS with people prior to this. And I think that this has all just confirmed what their feelings were, that there was a distrust and a fear. And restoring this trust is going to be very difficult. And I just wanted to go back and chronicle a couple of things that have been said here, and I am going to add one to it.

Obviously, we are here for the targeting issue; that is what this hearing was called for. But also we heard Chairman Johnson talk about, and I was on that committee, and heard Mr. Miller, I believe, was here the day that we talked about the abuse of the earned income tax credit that results in billions of dollars improperly being sent to people. And there wasn't a concern that we could even work together to fix this. We actually had to bring legislative action to fix it.

Chairman Ryan talked about the misuse or the inappropriate use of funds on these activities, over \$100 million, which is a significant amount of money, obviously. Chairman Boustany also talked about the bonuses that are being given out to people that perhaps were even involved in this. And we can't be assured that those bonuses are really bonuses that they deserve.

I also want to lift up a TIGTA report that showed that 1.7 million recipients received over \$2.6 billion of improper payment where we couldn't confirm that they even attended the school that they were asking for the tax credit for on the American Opportunity Tax refund.

And so we see over and over again this is not just about what has happened here in targeting that is a very serious issue, but it is a culture. There is a prevailing culture within this organization that leads people to

think when they turn on their television night after night and they continue to see one thing after another after another that there is a reason to distrust this organization that has so much power over them.

So my question for you is, in your report you do report here that there were three things that you are looking at, accountability, fixing the problem with the tax-exempt status, and then the third area is a broad review of the IRS operations and risk. Are those three things only related to what is happening with this tax-exempt or is this something you are going to look at overall?

Mr. Werfel. It is broader. In Section 3 of the report, what we attempt to do is we draw four general conclusions coming out of this issue with respect to the IG report, and we ask questions about the broader applicability of those four areas into the rest of the IRS, and we analyze each question and come up with a series of actions intended to deal with the issue. For example, and I think an important one, is the taxpayers not getting the appropriate customer service or treatment by being in a backlog too long and getting inappropriate questions --

Mrs. Black. Okay. So I am going to interrupt you because I am going to be limited on my time here and I want to go on to another question.

Mr. Werfel. Please. I understand.

Mrs. Black. But what I would like to know, I would like to know your plan. And I know you can't give me your whole plan today. But given what we are seeing here, there has got to be a plan to show the American taxpayer they can have confidence, that they can trust the IRS in their most personal information.

Mr. Werfel. An initial blueprint of that plan is here and is in Section 3 of this report, and I would love feedback on it. And certainly there are places we can fill out and do more. And I think this report is about starting that dialogue.

Mrs. Black. I am going to run out of time here, but I do have one more question. Your report states that you have found no evidence to date that anyone outside the IRS had any role in initiating or encouraging the Tea Party targeting.

The question that I have for you is, did you come to this conclusion by asking the White House or the Treasury officials whether they were aware of the activity?

Mr. Werfel. We came to this conclusion by looking at the evidence that we had, which was a variety of documents, emails, employee interviews, a lot of it conducted by the IG in their audit report.

Mrs. Black. So reclaiming any time --

Mr. Werfel. So essentially we have looked at the evidence that we have, but we have also said there is more evidence that needs to be looked at.

Mrs. Black. Okay. So I hope, then, that you will have a conversation with those in the White House, all the way up to the President, and that will be a part of your report that comes back as well. Thank you.

Yield back.

Chairman Camp. Thank you.

Mr. Davis.

Mr. Davis. Thank you very much, Mr. Chairman.

And, Commissioner, how are you? Thank you for being here.

You know, like a number of other people who have sort of expressed interest in the fact that you would take this position and even asked why, I think I have come to the conclusion of why. I think you know it is a very difficult situation, that you are going to have a tough job restoring trust in the agency by the American people. But I operate from the premise that if there is righteousness in the heart, there is beauty in the character.

And listening to you all of this time this morning, I get the impression that that is really where you are and that is what you really want to do and that is how you are going to manage this agency, in a balanced kind of way, adhering to the policies and practices, procedures and points of law that have already been established legislatively, that this is what you are supposed to do.

I have been tremendously impressed with the report that you have issued, and there are some things that jump out at me. One is the fact that you are ready to make some rectification for those groups and individuals who feel that they have been harmed with unusual delays of the processing of their applications, even to the point of self-certification. How would that work? How do you propose to have that work?

Mr. Werfel. This week, the taxpayers that are in our priority backlog for more than 120 days will receive a letter that will explain this new program that we have that will enable them to get a fast-track approval if they are willing to certify to these particular facts and realities. As I have said, it has to do with their expenditures and their voluntary person hours, and not to exceed certain thresholds.

So if they feel comfortable that they can attest to that is the way they are going to carry out their operations with respect to political and social welfare activity, they will sign the document, just like they sign their application today, submit it to the IRS, and we will give them an approval. And if their activities change, they will be required to let us know. And it is possible, like with any taxpayer, that they could be reviewed on audit or exam at some later point, and if we find compliance, we will move forward, if we find noncompliance, we will deal with it at that time.

Mr. Davis. I know that much of our conversation has been about transgressions and activity that was outside the realm of what one would expect. And I also know that history is history and that it is very difficult to change what has already happened, but it is not impossible to make sure that it does not happen again.

You mention in your report that there are certain risks and information relative to operations of the entire agency that the Commissioner's office may not have had enough information about.

Mr. Werfel. Yes.

Mr. Davis. And that you would want to seriously analyze that. And how do you change that information gap that may exist?

Mr. Werfel. When I came to the IRS, I recognized that across the organization I do not believe today there is enough work being done to both identify, categorize, understand emerging risks and operational challenges within the organization and bring it together on a portfolio basis across the IRS so that the senior leadership of the IRS can understand those issues and deal with them. Not just deal with them, by having transparency into them it automatically triggers accountability for them to deal with it, it creates an environment in which the leadership and the division itself are working together towards a solution. And, very importantly, it enables the leadership to then push that information out earlier in the process to the IRS Oversight Board, to the IG as necessary, to this committee as necessary.

We have an architecture that we are putting together, an enterprise-wide risk-management program that will redefine the way in which we capture this information and report it up. It seems very textbook within this report, but it is actually very important. And it is potentially, I believe, transformational to getting at some of the root of the very issues that this committee is raising. How can we --

Chairman Camp. Thank you.

Mr. Werfel. Okay.

Chairman Camp. Thank you.

Mr. Davis. Thank you, Mr. Chairman.

Chairman Camp. Mr. Young is recognized.

Mr. Young. Thank you, Mr. Chairman.

And thank you, Commissioner, for being here today. You are certainly entering this organization at a difficult time.

Your organization, like all others, is only as effective, only as good as the people that populate it, and by extension the extent to which we hold people accountable. We have many good, public-spirited, conscientious public servants working in the IRS and other agencies, and we must ensure that we don't put forward any baseless sort of disciplinary actions with respect to these individuals. I know you agree with that.

My preference would be to hold these individuals, however, to the same standards that other workers around the country outside of the Federal Government must pertain to. You have said time and again during this hearing that we need to discover the facts, or some variant of this, first discover the facts, wait on those facts to emerge, and then take corrective action. Entirely, imminently reasonable, and I agree with that.

This would presumably apply to personnel actions as well, where you have taken some bold actions over at the IRS with respect to management failures within your agency, replacing four individuals, five positions. This is prominently displayed in your plan of action here.

Mr. Werfel. Yes.

Mr. Young. And so what I want to know is what specific facts have you collected which justify the replacement of Steve Miller? We will begin with Mr. Miller.

Mr. Werfel. Okay. As I mentioned earlier, at that level of the organization we perceived in our review a deficiency in leadership in not understanding earlier in the process the emerging challenges that were happening within the Exempt Organization unit, the emerging concerns that were being registered by taxpayers. A lot of the activities that were going on in the IG report should have surfaced to the leadership before the IG brought to it their attention.

Mr. Young. What did he fail to do? Were there signals that existed that he failed to identify? Did he fail to put in place quality control mechanisms that should have existed?

This ought to be documented. You know, I know that throughout our Federal Government union protections for your rank and file workers are typically also applied at the higher echelons of management. So you had to overcome a pretty high threshold of evidence before the decision was made to replace Steve

Miller or any of these other individuals. So I want to know with particularity, why was Steve Miller replaced? Commissioner?

Mr. Werfel. Well, let me first state that I was not at the IRS when this situation happened. That was a decision I think that was determined between Mr. Miller, the Secretary of Treasury, and the President on terms of whether the confidence had been lost due this current situation.

Mr. Young. Has it been documented? Have the reasons for that decision to replace Mr. Miller been documented? Or could they be articulated by the new Commissioner, yourself, through you go by a slightly different title?

Mr. Werfel. Yes. This report is in part an attempt to provide a review of what we found in the organization at multiple levels. And I think we talk very explicitly about particular -- and I think we identify them as failures within the Commissioner's office to -- and I think these are the exact words that I think we use -- to identify, prevent, correct, and disclose the information that was --

Mr. Young. All right. You know, to my constituents, that sounds like a lot of Washington speak. A lot of words. You are taking up my time here. I have got 5 minutes. I appreciate an answer. But maybe I need to ask the question in a different way. So I will move to a different individual.

How about Joseph Grant. Can you tell me with specificity why Joseph Grant was removed from his position as Acting Commissioner, Tax Exempt and Government Entities Division?

Mr. Werfel. Again, let me take a step back and make sure that I don't violate anyone's rights of privacy. Let me also step back and make sure that I don't impugn any particular individual, because these are organizational layers, these failures were both individual and organizational, and I don't want to necessarily place the holistic blame for the situation on a given individual. There was a collective organizational failure. There were particular individual failures. And I don't think in 25 seconds I can articulate --

Mr. Young. Well, I don't need it here, because you have used the clock here down to the end. And I do appreciate the answers that have been forthcoming.

I would like to know, I would like you to report to this committee what disciplinary action beyond replacement of these individuals has been taken.

Mr. Werfel. And we can provide that to you in a different setting.

Mr. Young. Right. And perhaps you will think of or acquire through other means the reasoning behind these separations and communicate those with Congress as well. Thank you.

Chairman Camp. Thank you.

Mr. Kelly.

Mr. Kelly. Thank you, Mr. Chairman.

Mr. Werfel, because I was thinking along the same way as Mr. Young, coming out of the private sector. And I did notice you do have a great deal of concern for the folks that we are asking you to take a look at right now and saying you want to make sure we don't violate any of their rights or privacy. And I think that is very noble. And I think that is your desire.

But when I am back home in western Pennsylvania people ask me about, you know, why are they able to do this and why are they able to continue doing these things and nothing happens? Because what I would

like to say is, you know, our role as Congress is to be here for the people that we represent, that voted us in office.

I guess then my question would be, we are so concerned about these individuals' rights and privacy, but these folks that were targeted, we don't have the same amount of concern. And for all of this idea about my rights, my privacy, all those things seem to be secondhand to an agency that you are running right now. There are over 90,000 people. Is that correct?

Mr. Werfel. Yes.

Mr. Kelly. And an \$11 billion budget. My goodness, is there any doubt that anything this big and this expensive could possibly be reined in? I don't understand how you are going to do it. I think it is a noble idea, but I don't know that it can be done.

And again, moving forward, though, tell me, the people that were let go, what can you do to assure the American people that -- they really haven't been let go, have they?

Mr. Werfel. There is a combination of personnel actions that have been taken.

Mr. Kelly. But nobody has been let go.

Mr. Werfel. Again, there has been --

Mr. Kelly. Either they were let go --

Mr. Werfel. Has anyone been fired yet as a procedural matter? No. But all of these options are being proceeded with --

Mr. Kelly. Yeah. Because the way government works, they usually get redeployed. I haven't seen anybody get let go for anything. And I know that you don't have a lot of tools in your toolbox when people go on a leave of absence that is always paid. And I think for the American taxpayers that like to think, you know what, shouldn't somebody be watching our dollars, the answer is that you don't have the --

Mr. Werfel. People do get fired from the Federal Government, but it follows a process.

Mr. Kelly. I understand that. Yeah, well, I understand all that. But as of my 2-1/2 years here, any of the wrongdoing, nobody has ever been let go. They have been redeployed, they have been repositioned, they have been placed on administrative leave with pay, all different types of things. Both Ms. Lerner, and I think it was Mr. Roseman yesterday, people pleading the Fifth when they come before the people's house to answer questions about something that that they could be involved in.

Now, I know there is a rule of law. I can appreciate that. But that adds then to the public's distrust and loss of faith in the government. So I know you have a large job on your hands.

As we go forward, though, you said to start off, and maybe I didn't understand you, but more investigation needs to be done. How long do you foresee this going?

Mr. Werfel. That is a good question. And I don't want to lock into a particular timeframe because I want to make sure that we follow the facts wherever they take us. But I would anticipate that over the next, 2 months there will be a material amount of interviews and document review that would enable us to revisit the issues and see where we are. I think that is probably the right complement of time.

Will I say it is over at that point? No. But I think that seems to me a good milestone to check in and figure out, have we learned a material amount of information.

Mr. Kelly. So, so far what I have seen in your comments is that there has been a lot of wrongdoing or somehow things weren't handled the right way, but nothing that you could say that was intentional.

Mr. Werfel. At this time, we haven't seen anything, but we are open to the fact that it may have occurred. We just want to make sure that we are doing all the right due diligence to answer those questions.

Mr. Kelly. I understand that. I understand that. Just to switch real quick to Cincinnati.

Mr. Werfel. Yes.

Mr. Kelly. Did it originate in Cincinnati and only happen in Cincinnati? Does it go any deeper? Can you tell that yet?

Mr. Werfel. What I think is important to understand here is that there were --

Mr. Kelly. I am sorry, I am running out of time. Did you --

Mr. Werfel. Here is the point. I need to make this point. The individual that supervised the Cincinnati office sat in Washington, D.C. And if I --

Mr. Kelly. No, I understand. I understand. But the answer is, no, you don't know yet whether it is just in Cincinnati?

Mr. Werfel. I could offer more than that, but we don't know the answer. If you wanted me to expound, I could. But --

Mr. Kelly. I don't have the time. I would love to have a longer conversation.

Mr. Werfel. Okay. I don't know the definitive answer to that question.

Mr. Kelly. Okay. Is there any doubt in your mind that it doesn't lead back farther?

Mr. Werfel. I don't understand that question.

Mr. Kelly. Well, is it just Cincinnati? Or does it come back? Does it come towards Washington? How high does it go?

Mr. Werfel. I was about to say that there are people in Washington, D.C., in particular, for example, the position of Director of Rulings and Agreement, which is in my report.

Mr. Kelly. Okay. So it could go much deeper.

Mr. Werfel. That person sits in D.C. Now, there are five levels beneath the Commissioner's office.

Mr. Kelly. Okay.

Mr. Werfel. But they are involved in these activities and their office is in Washington, D.C.

Mr. Kelly. Well, I appreciate it. I just want to tell you that the people that I represent back in northwest Pennsylvania do not for any -- they don't believe right now that there is going to be a serious inquiry into this, and they don't think that the IRS is going to come out on its own and do it or the administration is going to do it on its own. It is going to be up to us in Congress to continue to look for what the answers are.

So I wish you luck on your job, but I also would say this is critical to the faith and trust that the people have in this government. Right now their tank is running on zero because we haven't seen anything yet that makes sense to the American people that this fair and just to them.

Chairman Camp. All right.

Mr. Renacci, and then Mr. Griffin.

Mr. Renacci. Thank you, Mr. Chairman.

Thank you, Mr. Werfel for being here. You know, I was watching all these questions. It reminded me of the days in my private sector life when I was hired to go into bad situations and turn them around. And that is exactly what you have had to do. And I had to report to a court every week in bankruptcy, in those situations, as a trustee's representative.

So one of the things that people always wanted to know in those was, what are you going to do to change things? How are going to fix things? And I think those are the line of questions that American people want to hear; they want to hear the answers.

I have got a lot of questions, so I am going to ask you just for yes or no answers, and if you want to go back to them, we can.

But did you talk to the Treasury about your testimony and discovery today?

Mr. Werfel. Yes, I consulted with Treasury about this hearing?

Mr. Renacci. Did you supply them your testimony or submit your testimony before --

Mr. Werfel. My testimony today was the report. So they had the report, of course.

Mr. Renacci. Did Treasury make any corrections, revisions, or make any suggestions on what you would say or not say or submit today? Yes or no.

Mr. Werfel. I wouldn't say corrections. I mean, I was keeping them informed of how the report was developing.

Mr. Renacci. Did they make any --

Mr. Werfel. I briefed them and, you know, they offered kind of I would say high-level suggestions. But as an important point, I don't think we got a single line edit from them. It was more general guidance.

Mr. Renacci. Okay. Right. So you did discuss it. Okay.

You know, Ranking Member Levin said in his opening statement that individuals at the IRS that targeted groups should be relieved of their duties. I made a quote of that, "relieved of their duties." I agree with Mr. Levin. Do you agree with Mr. Levin?

Mr. Werfel. I believe that if there is --

Mr. Renacci. If they targeted --

Mr. Werfel. -- if there is management neglect or inappropriate conduct, and it depends on the nature and extent of the management neglect.

Mr. Renacci. If they targeted groups, if they targeted groups --

Mr. Werfel. Intentionally, yes, I would agree.

Mr. Renacci. Okay. You have testified several times today that there was no intentional wrongdoing. Was there wrongdoing?

Mr. Werfel. I said there is not evidence yet of intentional wrongdoing. But, yes, I would articulate there was wrongdoing, there were --

Mr. Renacci. Okay. You testified -- as I said, I got a lot of questions. And I --

Mr. Werfel. Keep going, keep going.

Mr. Renacci. You testified that there was neglect of duty. You said that earlier. Do you believe there was neglect of duty?

Mr. Werfel. I do.

Mr. Renacci. So there was wrongdoing and there was the neglect of duty, but there was no intentional wrongdoing. Would you agree with that?

Mr. Werfel. There is no evidence yet of intentional wrongdoing. But I am not going to reach a definitive conclusion until all the evidence is obtained.

Mr. Renacci. Okay. Do you believe targeting of individuals or organizations for political purposes is illegal?

Mr. Werfel. Target with political bias? Yes, I think there is potential illegality there. It is certainly inconsistent with the IRS mission statement.

Mr. Renacci. Do you believe there is wrongdoing?

Mr. Werfel. Yes.

Mr. Renacci. Do you believe there is neglect of duty?

Mr. Werfel. Yes.

Mr. Renacci. Did the IRS seek removal of Mrs. Lerner?

Mr. Werfel. I can't answer that question in this setting. But I can answer that question in a different setting to you directly.

Mr. Renacci. So you can't answer whether she was asked to resign or be fired?

Mr. Werfel. Not in this setting, but in a separate setting, I can.

Mr. Renacci. What is Mrs. Lerner doing right now?

Mr. Werfel. I can't answer that question in this setting.

Mr. Renacci. Do you believe the IRS -- again, I am going to go back -- do you believe the IRS employees who were deemed to have targeted someone for political purposes should be fired?

Mr. Werfel. If it was based on political animus or that type of intent, yes. If the seriousness of the management neglect was to the appropriate level of seriousness, then, yes.

Mr. Renacci. Are you aware of Section 1203 of the IRS Restructuring and Reform Act of 1998?

Mr. Werfel. I am aware of the act, but you would have to tell me exactly which section you are referring to.

Mr. Renacci. The section creates a list of 10 deadly sins --

Mr. Werfel. Yes.

Mr. Renacci. -- that the IRS employees can be terminated for.

Mr. Werfel. Yes.

Mr. Renacci. Are you aware that political targeting is on that or not on it?

Mr. Werfel. I don't have the list memorized, but I can look into it. I think it is implied through other, more general criteria, is my recollection.

Mr. Renacci. It is specifically not mentioned. Can you think of any reason why we should not add the targeting of an individual for political purposes by the IRS agent to that list?

Mr. Werfel. Given these events, I think it is a reasonable suggestion.

Mr. Renacci. Okay. Well, I agree. So you know I will be introducing language to do that, and I hope your agency will support that.

Mr. Chairman, I yield back.

Chairman Camp. Thank you.

Mr. Griffin is recognized.

Mr. Griffin. Thank you, Mr. Chairman.

Thank you, Mr. Werfel, for being here. I also have heard great things about your reputation, and I hope that you will get to the bottom of this. I want to raise some specific questions, though.

This report, "Charting a Path Forward at the IRS," is a public report. And in this town, as you know, you have been here a while, and I have spent some time in this town, a public report, whether it is intended to be or not, is a political report. People are going to seize upon what is in that report. Statements like the one that you made where you have not found evidence of intentional wrongdoing on behalf of IRS personnel, they are going to seize on statements like that and they are going to hold that up and say, a ha, see there, no evidence. I was a staff investigator here in the House. I have been a prosecutor.

Did you not know that by putting that in the statement you were communicating to the world, even though this is simply an update, you were communicating to the world from a political perspective that there is no evidence of wrongdoing? I understand factually what you mean. But the reason this has gotten so much attention is because what a responsible investigator would say is either nothing where that line exists or the investigation continues.

The idea that you would say there is no evidence of intentional wrongdoing at this point is -- I worked at the White House in political affairs. You have worked to the White House. I worked up here. That is a political statement. Whether you intended it to be or not, that is a political statement that, whether you mean it to or not, gives cover to people politically at a time when Lois Lerner pled the Fifth Amendment, where anybody who has gone to YouTube and seen the testimony of high-level IRS officials in front of this committee, based on what we know now, it is clear that they were not being forthright in telling the whole truth with this committee.

Now, whether that constitutes what you would call evidence or not, if I knew that one of my top lieutenants had just pled the Fifth and my other lieutenants had given less than the whole truth to this committee, and I saw a staff person write that sentence, if they did, I would take it out.

So my first question is, did you write that sentence or did a staff member write that sentence?

Mr. Werfel. There was a group of people. I was one of the authors. We coauthored it amongst a group of people. I will take ownership of every sentence in this document. If you allow me the opportunity, I can respond to some of your points, but I don't want to use your time. It is up to you.

Mr. Griffin. Okay. I know. I would love to have a lot more time than I do. And maybe because I am last, I can keep going. Maybe not.

But did the White House at any time -- I know the White House, as I used to say, and probably you say, is not a person -- did anyone at the White House review this statement?

Mr. Werfel. No.

Mr. Griffin. No one?

Mr. Werfel. Not that I am aware of.

Mr. Griffin. Okay. Anyone at Treasury?

Mr. Werfel. Yes.

Mr. Griffin. Yes. Well, I --

Mr. Werfel. Let me just say, I did brief the President a few hours before the report went out on the morning the report was issued on Monday, and I did mention this conclusion. I just want to make sure that that was clear.

Mr. Griffin. I appreciate you pointing that out.

I think the bottom line is here we have an ongoing investigation here in this committee. We have an ongoing investigation in the Senate. We have an ongoing investigation at another committee. We have a criminal investigation. We have a top lieutenant who has pled the Fifth Amendment. We have, in my view, we have video of high-level officials giving less than the whole truth to this committee, which is potentially a criminal act. I just think that, whether you believe that statement or not, putting it in here with your background in Washington is irresponsible.

And let me go onto the next point here. These individuals that you personally did not interview, Joe Grant, Steven Miller, Doug Shulman, Lois Lerner, can you tell me who is interviewing -- first of all, is someone interviewing them?

Mr. Werfel. The Inspector General and the Justice Department are putting together a witnesses list or have put together a witness list. I assume it is evolving based on the facts that they are gathering. And the professional investigators of both the Inspector General and the Justice Department are conducting those interviews and at the appropriate time will share those results with me, and I assume you, in order to make sure that we have a collective understanding of the facts.

Chairman Camp. All right. Thank you. Time has expired.

Thank you, Mr. Werfel, for your testimony this morning.

And with that, this hearing is now adjourned.

[Whereupon, at 1:07 p.m., the committee was adjourned.]