

Statement of Neal S. Wolin
Deputy Secretary of the Treasury
before the
Committee on Oversight and Government Reform
United States House of Representatives
May 22, 2013

Chairman Issa, Ranking Member Cummings, members of the Committee, thank you for the opportunity to appear before you today.

Last week the Treasury Inspector General for Tax Administration (TIGTA), J. Russell George, published a report on the Internal Revenue Service's (IRS) use of inappropriate criteria to identify tax-exempt applications. Like President Obama and Secretary Lew, I believe that the activities described in the report are absolutely unacceptable and inexcusable. The IRS must operate without bias or even the perception of bias. It must act in an utterly nonpartisan manner. It must act with the utmost integrity. The IRS did not do that here.

Upon learning of TIGTA's findings, President Obama and Secretary Lew immediately took action.

First, within twenty-four hours of receiving the TIGTA's report, Secretary Lew asked for and accepted the resignation of the Acting Commissioner. The next day, the Acting Commissioner for Tax Exempt and Government Entities tendered his resignation. The day after that, the President appointed Daniel Werfel to be the new Acting Commissioner and charged him with holding accountable anyone responsible for the improper conduct.

Second, Secretary Lew instructed Mr. Werfel to implement, fully and promptly, all nine of the recommendations in the TIGTA report. Secretary Lew also directed Mr. Werfel to examine and correct any failures in the system that allowed this behavior to happen.

Third, the Secretary asked Mr. Werfel to conduct a broader review to see whether the inexcusable conduct reflects larger management failures and cultural issues at the IRS that require systemic change. Secretary Lew directed Mr. Werfel to take action and implement the necessary changes.

Within 30 days, Mr. Werfel will report back to Secretary Lew and the President on his progress and any future actions he expects to take.

Mr. Werfel is ideally suited for his charge. He is a career public servant. He has worked in both Democratic and Republican administrations. He is an effective leader who serves with the kind of professionalism, integrity, and skill that the American people deserve. He has our full support. Today is his first day, and we are confident that he will hit the ground running.

Before I describe Treasury's interactions with TIGTA related to this audit, it is important to underscore two critical points.

First, there is no indication that Treasury was involved in the improper conduct at the IRS. The TIGTA report did not find any evidence that Treasury or others outside the IRS had any role. Mr. George confirmed this point in his testimony before the House Ways and Means Committee last Friday and before the Senate Finance Committee yesterday.

Second, the improper conduct already had ended by the time Mr. George informed Treasury of the fact of his audit. Mr. George's report states that the improper conduct ended in May 2012. Mr. George testified that he first notified Treasury of the fact that he was conducting the audit – but not any results – in June 2012.

At some point in 2012, though I do not recall precisely when, Mr. George notified me, at his initiative, that he had undertaken an audit of the IRS's review of tax-exempt applications. He told me only of the fact that he had undertaken such an audit, and he did not provide any findings. That is my recollection, and that is what Mr. George testified before the House Ways and Means Committee last Friday and before the Senate Finance Committee yesterday.

In that conversation, I told him that he should follow the facts wherever they lead. I told him that our job is to stay out of the way and let him do his work. I told him to let us know if he wanted our help and otherwise to let us know when he had more to tell us.

I understand that Mr. George also notified this Committee in July 2012 that he had begun his review. Similarly, in October 2012, he provided a notice on his public website that he was conducting his review.

Again, to be clear, Mr. George told me that he was conducting an audit, and I told him to follow the facts wherever they lead. Our core principle is that we do not interfere in any way – or do anything to create the perception of interference – with the independent review of an inspector general. When an inspector general tells us he is conducting a review, we step back and leave him to do his work. That is how the process functions. That is how the process should function. And that is how the process functioned here.

On March 15, 2013, Mr. George had a short introductory meeting with Secretary Lew. At that meeting, Mr. George informed Secretary Lew of a number of matters TIGTA was reviewing. He also indicated that this audit report would be forthcoming. Mr. George did not describe any details of his audit findings. This was also in line with standard practice.

Let me reiterate that there is no indication that Treasury was involved in the inexcusable behavior at the IRS. And Treasury only learned of the fact that TIGTA was conducting a review after the unacceptable conduct already had ended.

It is important in this context to make clear that Treasury's longstanding practice – spanning Republican and Democratic administrations – is not to involve itself in the details of the IRS's administration and enforcement of the nation's tax laws. It is critical that the nation's tax laws are administered and enforced in a way that neither involves political influence, nor the perception of political influence. This is particularly true with respect to decisions affecting

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specific taxpayers. That is how the process functions. That is how the process should function. And that is how the process functioned here.

Over the past twelve days, President Obama and Secretary Lew have taken decisive action to address what happened at the IRS. The President named a new Acting Commissioner, and we charged him with holding responsible parties accountable and with taking immediate action to prevent these inexcusable acts from happening again.

Treasury is committed to taking all measures to restore the public's confidence in the IRS. Toward that end, we have asked TIGTA for its continued assistance, and we are cooperating fully with this Committee and this Congress. Thank you again for the opportunity to appear before you today.