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Rossotti's Hires Raise Red Flags - Charles Rossotti September 10, 2001

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Insight on the News

IRS Commissioner Charles Rossotti has been filling plum positions at his agency with employees of his information-technology company and others who steered business to it.

Already under fire for holding on to millions of dollars worth of stock in an information-technology company that he used to run and that does substantial business with the IRS, Commissioner of Internal Revenue Charles Rossotti has hired another large stockholder in the same company to advise the agency on computer modernization and technology purchases, Insight has learned.

Rossotti just installed his former employee, Fred L. Forman, as executive program adviser for business-systems modernization, a new position that pays \$186,300 a year, the same salary Vice President Dick Cheney earns. Forman had joined Fairfax, Va.-based American Management Systems (AMS) in 1971, a year after it was founded by Rossotti and his partners. Before he joined the IRS in April, Forman was executive vice president and participated "in key AMS-wide executive-management activities," according to an AMS proxy statement in 2000.

Like Rossotti, Forman accumulated millions of dollars worth of stock in AMS. He was listed in the proxy statement as a "principal stockholder" in the company, with 240,560 outstanding shares of common stock, which now is worth more than \$4 million, plus whatever stock options he may hold. And Forman has something else in common with Rossotti: He is not planning to sell his AMS stock, according to the IRS, despite the fact that AMS has had more than \$80 million worth of contracts with the IRS since 1990.

This has raised further concerns about conflicts of interest because Forman will be involved in the day-to-day operations of IRS computer systems, where AMS does significant business and wants to do even more.

Forman "will not be approving procurements, but certainly would be involved in discussions that relate to it," IRS spokesman Frank Keith tells Insight. "Clearly, he is a significant part of the business-systems modernization management structure."

According to his official job description, provided to Insight by the IRS, Forman's duties include "developing and reviewing plans ... for quality, feasibility and business value"; "resolving critical security issues"; "drafting key reports, presentations and documents for use in budgets"; and "providing general advice and guidance to the Associate Commissioner [for Business Systems Modernization] on programs and projects."

Critics say the hiring of Forman is more evidence that Rossotti is using the power Congress granted him to hire outside experts to benefit his former company. Larry Klayman, chairman of the conservative public-interest legal group Judicial Watch, tells Insight, "It's outrageous! We see here a pattern of a continuing crime under the Ethics in Government Act commonly known as feathering one's own nest."

Forman says, just as Rossotti did, that he will exclude himself from matters affecting his stock holdings in AMS. In an April letter Forman promised to recuse himself from "personally and substantially" participating in any project "that will have a direct and predictable effect on my information-technology holdings." In addition to AMS, Forman also owns stock in America Online, Lucent Technologies and Siebel Systems. Insight could not ascertain the value of Forman's holdings in these and other companies because he obtained an extension on his financial-disclosure forms, IRS ethics official Barry Ratowe tells Insight.

"He, of course, would be recused on any matters, procurement or otherwise, that deal directly or in any way with AMS because of his stock ownership," says the IRS' Keith. "That's a routine prohibition that exists under the government ethics rules for all employees, including Mr. Forman."

But Klayman notes that Rossotti was able to get around the rules with a conflict-of-interest waiver issued in the last days of the Clinton administration. As previously reported by Insight, the December 2000 waiver signed by Bill Clinton's deputy treasury secretary Stuart Eizenstat (see "IRS Boss Snagged Clinton Waiver," May 7) allowed Rossotti to join in decisions about the IRS' Custodial Accounting Project, which interfaced with an automated financial-management system provided by AMS, even though "certain decisions would have a direct and predictable effect on your [Rossotti's] financial interest in AMS."

Rossotti's waiver is getting attention. Judicial Watch recently filed a lawsuit to force the agency to turn over documents related to the decision to grant the midnight waiver after the IRS did not respond to the group's Freedom of Information Act request. The story finally made it into the mainstream media when the Associated Press (AP) reported in August news about these matters that Insight broke four months earlier. "Rossotti's decision to continue holding stock in his company differs from several recent Bush-administration officials who chose to sell interest in companies after facing conflict-of-interest questions," the AP article said.

The IRS' Keith tells Insight that, so far, Forman has received no waivers. But Klayman is concerned that Forman has an even greater opportunity than Rossotti to tilt purchases toward AMS. "Once you put these people in power, the lower level knows who butters their bread," he says. "He's playing a role in shaping what is needed, so by definition he can tailor the programs such that only AMS can satisfy them."

And, according to a top former congressional staffer familiar with the IRS and its vendors, insiders dealing with the agency already believe that Forman is the man to see to get to Rossotti. "He's treated by the outside world as if he has influence" says the former staffer, who spoke to Insight on the condition of anonymity. "He's one of the persons you go to when you want to talk to the king but you can't whisper directly in his ear." Although Forman officially is an adviser to the IRS, the former staffer says he is, in effect, the agency's chief of information technology.

Forman did not respond to Insight's request for an interview to discuss these matters. Rossotti was on vacation and unavailable for comment, according to Keith.

Some see Forman's move to the IRS as part of Rossotti's pattern of giving top-paying IRS jobs to those with favorable relationships with AMS. In the 1998 IRS Restructuring and Reform Act, Congress gave the IRS commissioner the power to hire experts outside of the agency for "critical-pay" positions at salaries up to that of the U.S. vice president. In April, then-chairman of the Senate Finance Committee, and now the ranking minority member, Sen. Charles Grassley (R-Iowa) asked Rossotti in a letter to list all IRS employees hired for critical-pay positions who "had any relationship with AMS."

The Grassley letter was prompted by Insight's reports that Rossotti had hired for prestigious jobs at IRS two heads of state tax agencies that had contracted prodigious amounts of business with AMS (see "A Taxing Dilemma," April 23). Rossotti named Kansas Secretary of Revenue John LaFaver as the IRS deputy commissioner for modernization in 1998. AMS noted LaFaver's IRS status when it quoted his favorable comments about the company's work in Kansas in brochures sent to state officials. Val Oveson, chairman of the Utah State Tax Commission, was hired as national taxpayer advocate for the IRS, also in 1998.

Both men since have moved on to plum jobs in the private sector. Oveson is a senior director in the Salt Lake City office of the prestigious PricewaterhouseCoopers accounting firm. And LaFaver, ironically, recently became vice president for state and local solutions at AMS. LaFaver did not return Insight's telephone calls, and Oveson declined comment through a PricewaterhouseCoopers spokesman.

According to the official response to Grassley, the IRS has put at least five individuals with a relationship to AMS in critical-pay positions. Insight also previously reported that Karla Pierce -- LaFaver's successor as secretary of revenue in Kansas who defended AMS when it was being blamed for problems with the new tax system -- recently was hired as director of organizational transformation for the IRS modernization project by the agency's lead contractor, Computer Sciences Corp. (see "A Taxing Dilemma," April 23). Neither the IRS nor the company deny allegations that Rossotti used influence or input to get Pierce her job.

Former IRS commissioner Don Alexander, a Richard Nixon appointee credited with ending Nixon's politicization of the agency, tells Insight nothing is wrong with a commissioner giving top jobs to people with whom he personally is

acquainted. "Frequently, you hire people that you know," says Alexander, now a partner at the Washington law firm of Akin, Gump, Strauss, Hauer & Feld, which practices before the IRS. Rossotti "knew them and he figured they were good people, so he hired them."

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