

NOMINATION OF EDWARD KINGMAN, JR.

HEARING

BEFORE THE

**COMMITTEE ON FINANCE
UNITED STATES SENATE**

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

ON THE

NOMINATION OF

EDWARD KINGMAN, JR., TO BE ASSISTANT SECRETARY OF THE TREASURY FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER, DEPARTMENT OF THE TREASURY

DECEMBER 19, 2001



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

77-707—PDF

WASHINGTON : 2001

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON FINANCE

MAX BAUCUS, Montana, *Chairman*

JOHN D. ROCKEFELLER IV, West Virginia	CHARLES E. GRASSLEY, Iowa
TOM DASCHLE, South Dakota	ORRIN G. HATCH, Utah
JOHN BREAUX, Louisiana	FRANK H. MURKOWSKI, Alaska
KENT CONRAD, North Dakota	DON NICKLES, Oklahoma
BOB GRAHAM, Florida	PHIL GRAMM, Texas
JAMES M. JEFFORDS (I), Vermont	TRENT LOTT, Mississippi
JEFF BINGAMAN, New Mexico	FRED THOMPSON, Tennessee
JOHN F. KERRY, Massachusetts	OLYMPIA J. SNOWE, Maine
ROBERT G. TORRICELLI, New Jersey	JON KYL, Arizona
BLANCHE L. LINCOLN, Arkansas	CRAIG THOMAS, Wyoming

JOHN ANGELL, *Staff Director*

KOLAN DAVIS, *Republican Staff Director and Chief Counsel*

CONTENTS

OPENING STATEMENTS

	Page
Baucus, Hon. Max, a U.S. Senator from Montana, chairman, Committee on Finance	1

ADMINISTRATION NOMINEE

Kingman, Edward Jr., to be Assistant Secretary of the Treasury for Management and Chief Financial Officer, Department of the Treasury	2
Prepared statement	7
Biographical	8
Responses to questions from Senator Baucus	14

**NOMINATION OF EDWARD KINGMAN, JR., TO
BE ASSISTANT SECRETARY OF THE TREASURY
FOR MANAGEMENT AND CHIEF FINANCIAL
OFFICER, DEPARTMENT OF THE
TREASURY**

WEDNESDAY, DECEMBER 19, 2001

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

The hearing was convened, pursuant to notice, at 10:17 a.m., in room 215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

**OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR
FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE**

The CHAIRMAN. Please come to order.

Welcome. Good morning, everybody. This morning we will consider the nomination of Mr. Edward R. Kingman, Jr. to be the next Assistant Secretary for Management and Chief Financial Officer for the Treasury Department.

The President nominated Mr. Kingman shortly before Thanksgiving. The committee is acting on his nomination today at the urging of Treasury Secretary Paul O'Neill. Secretary O'Neill, I might tell you, Mr. Kingman, has called me several times. He says, we need Ed. We have got to get him right away.

When Secretary O'Neill calls, it is like that E.F. Hutton ad: I listen. Not only do I listen, I try to do what I can to be helpful, because I think he is an excellent Secretary.

He made clear to me his desire to make the Treasury Department a first-class managed organization. For this reason, the role of Assistant Secretary for Management and Chief Financial Officer is of critical importance.

The Secretary engaged an employment search firm to find someone with proven success in the management of a world-class organization. According to the Secretary, the administration screened many applicants before finding the right fit.

Secretary O'Neill told me the administration found its person in Ed Kingman. Unfortunately, after the events of September 11, the FBI's resources for background checks were extremely limited and the nomination took longer than expected to be announced in the public.

Since receiving the nomination and necessary paperwork, the committee staff worked hard to expedite this process. It has been

this committee's practice, and it is my desire, to work with the administration to ensure that critical positions are filled. To date, we have considered and favorably reported 38 nominations. Mr. Kingman would make 39 for the year.

The committee received one additional nomination last week, and we will get to that nomination early next year.

I apologize to members of the committee for the late notice of today's hearing. Apparently, members have other matters they are attending to today as we are trying to adjourn that are on their schedules.

I must tell everyone, though, the background work has been completed and we are acting today to consider Mr. Kingman as an accommodation to the President, and as an accommodation to the Secretary.

Mr. Kingman has a stellar record of achievement in the private sector, with 32 years of experience. In addition to his outstanding executive level leadership, he has a strong background in accounting and financial management. I am sure his diverse background will be well-utilized by the Department of Treasury.

As some of you may know, Mr. Kingman has spent most, if not all, of his professional career in the telecommunications industry.

As our country and the worldwide marketplace comes to rely more and more on computers, fiber optics, and hopefully more broad-band communications, I am sure that Mr. Kingman's knowledge and understanding of the telecommunications industry will help the Treasury Department and its bureaus to be on the cutting edge of technology and customer service.

I wish Mr. Kingman the best and look forward to his statement. Mr. Kingman, we would like to hear from you on anything you might want to say.

STATEMENT OF EDWARD KINGMAN, JR., NOMINATED TO BE ASSISTANT SECRETARY OF THE TREASURY FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF TREASURY

Mr. KINGMAN. Thank you very much, Chairman Baucus.

I would like to offer, in the instance that there are very weighty matters pending here in your office and the offices of all members of the committee, that I would submit my formal remarks and go directly to questions, if you so choose.

The CHAIRMAN. That would be fine, Mr. Kingman.

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

The CHAIRMAN. Let us do it this way. Why do you want this job?

Mr. KINGMAN. I want this job because I want to serve the American people.

I had an incredible opportunity, sir, that after 32 years of experiencing the fruits of the American system—I retired from Verizon Communication—only to find my father passed away. At Arlington National Cemetery, when the flag was passed to me, I had an epiphany. I, too, wanted to serve the American people.

The CHAIRMAN. It is interesting, the effect that September 11th has had in that vein. It is clear that a lot of people have come together in this country to work together as a consequence of Sep-

tember 11th, recognizing our mortality, recognizing that we have to work together and should work better together. The events in New York and the aftermath of people working so well in New York is certainly evidence of that. Around the world, that is the case.

I know of one candidate for the U.S. Senate who was not going to run for the Senate, but, because of September 11th, as you, decided that he wanted to serve. He is now running for the Senate in North Carolina. He will make a very good candidate.

What do you hope to accomplish? When you leave, how do you want to be remembered?

Mr. KINGMAN. I want to be remembered as assisting this President, this Secretary, in achieving world-class excellence in all aspects of services to the American people through the Department of Treasury.

The CHAIRMAN. In addition to being remembered as providing excellent service to the people, is there a project that you have in mind or that you are looking at, or some new operations in Treasury that you think could be improved? Just some benchmark, something that you are looking at right now.

Mr. KINGMAN. I have a philosophy that everyone wants to win the Super Bowl. The Secretary believes that success is through people. He cannot do it all. That requires world-class leadership, the leadership that he has shown through his career.

In terms of how that manifests itself in the Treasury Department, it manifests itself in how we execute our responsibilities, the leadership in terms of how we take stretch objectives, how we go about those objectives, what are the elements and principles or values that we go about executing those programs and initiatives.

The CHAIRMAN. Do you have a sense of how up-to-date the computer system is at Treasury and what is needed, if anything, to bring things up to date?

Mr. KINGMAN. As a consultant, I have been looking at the various systems, and the applications, and success of those systems. I think, from my initial look in reading the OIG reports, the TIGDA reports, and the GAO reports, it is uneven.

Some are extraordinary and world-class. I was extraordinarily pleased to see our mint as a world-class service, exceeding Wal-Mart and others, at an 89-percent ranking, the best in government. I was pleased to see that our customer service for IRS has improved.

However, there are other areas that we need some significant work in, and that work is planned in the future. First and foremost, is our financial management systems. Of course, the key one coming up is our Customs modernization.

The CHAIRMAN. What others come to mind that perhaps will take a little looking at?

Mr. KINGMAN. Well, I think, Senator, the most critical one, when we talk of modernization, is IRS modernization also. If we talk about the top three, it is IRS modernization, it is Customs modernization, and it is implementing security throughout our Treasury systems. Then as we look forward, it is really implementing e-government initiatives to serve the American people.

The CHAIRMAN. I was talking to someone who is high up in INS. They were telling me that they have a hard time developing proper profiles to screen people coming into the United States because their computer systems are not compatible with, say, FBI or CIA, and some other systems. My guess is, there is a little bit of reluctance anyway on the part of those agencies to get full information back and forth.

Are you at the point, now knowing the degree to which that is a problem with Customs, can Customs talk? Are the computers synchronized, compatible, and is the will there among the agencies to share information? I know that is several questions, but if you could just generally address that, I would appreciate it.

Mr. KINGMAN. I think the Customs does an excellent job in sharing information, but the vehicles by which that information is shared are, in some cases, uneven.

The Customs Department does have one of the best case management systems in government. We are looking at that to try and export that to other agencies as well.

The CHAIRMAN. What about the number of employees and whether, in your judgment, Treasury has enough good employees to do the job? There are some who suggest that, with devolution, we are now starting, as American people, to pay a price. That is, there comes a time when there are so few people, or so little is contracted out because people do not like Washington.

It is fashionable to criticize the Federal Government. We may have, at least in Treasury, stretched ourselves a little thin. Have you got a sense of whether we have sufficient resources to do the job? Are there too many resources, not enough, about right? What do you think?

Mr. KINGMAN. From my work as a consultant and in trying to look at human resources as one of the critical elements for success, particularly dealing with the bubble we have in terms of Federal retirements coming up in the next 5 years, clearly, we are in the resource allocation process right now to make sure that we address critical needs.

It is both a human aspect, and we get back to the issue of it and computers. We are now a department of knowledge workers. We are not clerical workers. So, it is transferring and moving the benefits of information technology to replace clerical and jobs that can be best done through technology.

But it is an issue. It is an issue for all of the bureau heads, it is an issue for this Secretary, and we continue to look at resource allocation.

The CHAIRMAN. Do you have plans to convert? I know that is a continual process from clerical to resource-based. That takes new skills, takes training, takes a different person, perhaps maybe the same person with different skills. But do you have plans, data, dates, and deadlines?

Mr. KINGMAN. Every bureau has modernization activities in one fashion or another, or process management improvement, continuous management improve efforts under way.

This Secretary is particularly keen and requires performance measurements on those, and we are working on those aspects. As a consultant, I am aware of working on those aspects as we speak.

The CHAIRMAN. I have three standard questions that I must ask you.

First, is there anything you are aware of in your background that might present a conflict of interest with the duties of the office to which you have been nominated?

Mr. KINGMAN. No, sir.

The CHAIRMAN. Do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated?

Mr. KINGMAN. No, sir.

The CHAIRMAN. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly-constituted committee of Congress, if you are confirmed?

Mr. KINGMAN. I do, sir, with the only exception, if there is a reason for law.

The CHAIRMAN. I have no further questions.

I would like, on the record, for you to, again, introduce your family.

Mr. KINGMAN. Thank you so much.

The CHAIRMAN. Let us just do that.

Mr. KINGMAN. If I might, for the record, first, introduce my deceased father and mother, who are inside me. That is Captain Edward R. Kingman, USN, and my mother Margaret Hooker Kingman.

Then, of course, I have with me my beloved wife, friend, and love forever, Betsy.

I have Thomas on the left, and Edward, III. We call him Gus.

The CHAIRMAN. Gus. It is good you call him Gus, otherwise there would be some confusion, I am sure, in the family.

Could you also introduce your friends?

Mr. KINGMAN. I certainly would. I am very proud to do this. This is Theresa Russell, who is Deputy Assistant Secretary and heads the strategic plan.

This is Carl Moravitz. We call him Professor Moravitz. He is the Director of the Budget, an extraordinary career service individual.

We have Tim Weathersford, who just joined us, who is a new addition to the team.

I would, if I could, sir, like to thank your staff. The Finance Committee staff has been very probing in their questions, but has worked very, very hard to help move the nomination forward. You have an excellent staff.

The CHAIRMAN. And particularly Pat Heck.

Mr. KINGMAN. Particularly Pat.

The CHAIRMAN. Yes. That is good.

You might get some written questions from members of the committee. We will make sure that those questions are given to you very quickly. If there are any written questions, we would ask that you return them to the committee as quickly as you possibly can.

Mr. KINGMAN. Yes, sir.

The CHAIRMAN. I think that does it. I wish you the very, very best of luck. It is going to be a great ride—as you know, ups and downs—but deep down you are serving the country and that is what motivates us all who are in this line of work.

Thank you very much for what you are doing.

Mr. KINGMAN. Thank you, Mr. Chairman. Thank you for the opportunity.

The CHAIRMAN. The hearing is adjourned.

[Whereupon, at 10:32 a.m. the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF EDWARD KINGMAN, JR.

Thank you, Chairman Baucus, Ranking Member Grassley, and Members of the Committee, I am humbled at the honor and privilege to be able to testify today in support of my nomination to serve as Assistant Secretary of the Treasury for Management and CFO. I want to especially thank you and your staffs for considering my nomination at such a pressing time.

Before proceeding, I would like to thank President Bush for the opportunity to serve my country and Secretary O'Neill for his support and confidence. I offer eternal thanks to my father, Captain Edward Kingman USN (ret) and my mother Margaret Kingman who taught me my core values of character, perseverance and patriotism. I would especially like to thank my wife, best friend and love forever, Betsy for her steadfast support and encouragement as well as sons Tom and Gus for sharing their mother's support and understanding the sacrifice of time required to meet the needs of the Nation.

Mr. Chairman, I have a deep respect for public service and am humbled at the opportunity for consideration to serve this great country. My high school civics teacher Mrs. Crites taught me well regarding the importance of the advise-and-consent role of the Senate in the confirmation process. If I am confirmed, I look forward to working closely with this Committee, the Senate, and with Members of the House of Representatives on management issues regarding the Department of the Treasury.

I look forward to the challenges, opportunities, and responsibilities that await me if confirmed as the Assistant Secretary of Treasury for Management and CFO. The Treasury Department utilizes valuable resources in the execution of its mission that require the employment of modern and prudent management practices. I believe that I am qualified to hold this important Treasury position. My academic preparation included a BA in communications and an MBA in finance from the American University, as well as completion of the Advanced Management Program at the Harvard Business School.

My private sector business experience spans 32 years in which I served in the capacity of Controller, Treasurer, and vice president in significant subsidiaries of Verizon Communications. During the past seven years, I led international companies implementing American ethics and business practices. In Mexico, I served in the Verizon subsidiary IusaCell as Chief Operating Officer and Chief Financial Officer taking the company public on the New York Stock Exchange. In Europe I served as the Chief Executive Officer of EuroTel, a subsidiary of AT&T and Verizon, implementing enterprise systems and achieving ISO 9001 quality certification. In summary, I have had the opportunity to lead and successfully manage large and complex organizations using the best of American and global business tools. If confirmed, I look forward to applying my experience in achieving the mission success of The Department of the Treasury.

Thank you Mr. Chairman. It would be my honor to answer any questions.

**SENATE FINANCE COMMITTEE
STATEMENT OF INFORMATION REQUESTED OF NOMINEE**

A. BIOGRAPHICAL INFORMATION

1. Name: Edward Rockwell Kingman Jr.
2. Position to which nominated: Assistant Secretary of Treasury
For Management and CFO
3. Date of nomination: November 15, 2001
4. Address: 13500 Haddonfield Lane
Darnestown Md. 20878
5. Date and place of birth:
3/13/1948, Plymouth England, US citizen by birth to US Military
personnel serving in England after WWII
6. Marital status: Married, Betsy Kay Loftus
7. Names and ages of children: Edward Rockwell Kingman III, age 15
Thomas Glen Urquhart, age 27
8. Education:
Washington-Lee High School, 1963-1966 HS 1966
The American University, 1966-1978 BA 1970, MBA 1978
Harvard Business School, 1997 Advanced Management Program
9. Employment record: (List all jobs held since college, including the title or
description of job, name of employer, location of work, and dates of
employment.)

Senior Manager
Verizon International
13500 Haddonfield Lane
Darnestown MD 20878
January-February 2001

President, Managing Director and CEO
EuroTel Praha/Verizon International
Sokolavska, 190 00 Praha
Czech Republic

10/1998-12/31/00

Executive VP and COO, 1/1994-1/1997
 Senior VP and CFO, 1/1994-1/1997
 Grupo IusaCell/Verizon International
 Prolongacion Reforma 1236, Col. Santa Fe
 Mexico, D.F.

Vice President/Executive Director
 Verizon Communications (previously Bell Atlantic
 Network Services Group (NSG))
 1310N. Court House Rd
 Arlington VA.
 10/1992-12/1993

Controller 1/1991-10/1992
 Consultant to PRTC concurrently with controller responsibility
 4/1992-9/1992
 Executive Director External Affairs 7/1989-3/1992
 Verizon Communications (previously C&P Telephone)
 1710 H. St NW
 Washington DC

Treasurer 4/1985-6/1989
 Director Financial Management 6/1983-3/1985
 Verizon Communications (previously The C&P Telephone Company, The
 C&P Telephone Company of Virginia, The C&P Telephone Company of
 Maryland, The C&P Telephone Company of West Virginia)
 1710 H. St. NW
 Washington DC

Director Financial Management 6/1980-6/1983
 Staff Accountant 9/1976-5/1980
 Verizon Communications (previously The C&P Telephone Company)
 13101 Columbia Pike
 Silver Spring MD

Management positions of increasing responsibilities 6/1970-8/1976
 Verizon Communications (previously C&P Telephone Company of
 Maryland) Various Locations in Gaithersburg, Bethesda and Silver Spring
 MD

10. Government experience: (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)
 None

11. Business relationships: (List all positions held [for the past 10 years] as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.)

President, Managing Director and CEO of EuroTel Praha
Executive VP and COO, Senior VP and CFO, member of the Board, Grupo Iusacell
Vice President Finance NSG (NSG is succeeded by Verizon Communications)
First VP the American Society of Mexico
Executive Director External Affairs, Controller, The C&P Telephone Company (The C&P Telephone Company is succeeded by Verizon Communications)
Chairman of the Audit Committee, The Red Cross of the National Capital Area
Treasurer, The C&P Telephone Company, The C&P Telephone Company of Maryland, The C&P Telephone Company of Virginia and the C&P Telephone Company of West Virginia (all C&P companies are succeeded by Verizon Communications)

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

Past Chairman of the Audit Committee of the American Red Cross of the National Capital Area
Past First Vice President of the American Society of Mexico
Past member: The Partnership for the Prevention of Drug Abuse
Past member: The Coalition for the Prevention of Homelessness
Past member: The American Chamber of Commerce-Czech Republic
Past Member: The American Chamber of Commerce of Mexico
Past member: The Loaned Executive Club of the United Way of the National Capital Area
Past member: Phi Sigma Kappa fraternity

13. Political affiliations and activities:

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

None

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

None

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

Bush for Pres on behalf of George W. Bush, \$150
Friends of Connie Morella for Congress on behalf
of Constance Morella, \$150

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

Democracy & Free Enterprise Award by the Fund for American Studies

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

None

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

I have made numerous public speeches during the past five years all of which related directly to the performance of companies in which I was an official. I did not retain copies of these speeches.

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

I have spent over 32 years in the management of large and small multi-cultural companies. This experience includes responsibilities as CEO, COO, CFO, Controller and Treasurer. I have led significant and successful management programs to change and grow companies dramatically. As CFO, I have taken a company public on the New York Stock Exchange. My responsibilities and experiences include extensive regulatory work with governments.

B. FUTURE EMPLOYMENT RELATIONSHIPS

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

I have severed all connections with my all previous employers with the exception of participation in retirement and employee benefit plans and the terms of my separation agreement.

2. Do you have any plans, commitments, or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, provide details.

No

3. Has any person or entity made a commitment or agreement to employ your services in any capacity after you leave government service? If so, provide details.

No

4. If you are confirmed by the Senate, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? If not, explain.

Yes, I expect to serve until the next Presidential election.

C. POTENTIAL CONFLICTS OF INTEREST

1. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of the Treasury, which is documented in my letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics.

2. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of the Treasury, which is documented in my letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics.

3. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat, or modification of any legislation or affecting the administration and execution of law or public policy. Activities performed as an employee of the Federal government need not be listed.

I testified on behalf of C&P Telephone against a proposed increase in the gross receipts tax in the District of Columbia.

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

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

5. **Two** copies of written opinions should be provided directly to the Committee by the designated agency ethics officer of the agency to which you have been nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position.
6. The following information is to be provided only by nominees to the positions of United States Trade Representative and Deputy United States Trade Representative:

Have you ever represented, advised, or otherwise aided a foreign government or a foreign political organization with respect to any international trade matter? If so, provide the name of the foreign entity, a description of the work performed (including any work you supervised), the time frame of the work (e.g., March to December 1995), and the number of hours spent on the representation.

N/A

D. LEGAL AND OTHER MATTERS

1. Have you ever been the subject of a complaint or been investigated, disciplined, or otherwise cited for a breach of ethics for unprofessional conduct before any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No

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

No

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

I was a party in an uncontested divorce proceeding in 1984. Over the past thirty years, I have been a plaintiff in three civil actions relating to auto accidents. In each case, judgment was rendered in my favor.

4. Have you ever been convicted (including pleas of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense? If so, provide details.

No

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

None

E. TESTIFYING BEFORE CONGRESS

1. If you are confirmed by the Senate, are you willing to appear and testify before any duly constituted committee of the Congress on such occasions as you may be, reasonably requested to do so?

Yes

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

Yes

RESPONSES TO QUESTIONS FROM SENATOR BAUCUS

Question 1: In fiscal year 2000, the GAO gave an unqualified opinion on IRS's financial statements but also concluded that IRS did not implement long-lasting solutions to serious systems deficiencies and internal control weaknesses.

- a. What are your views regarding the IRS devoting substantial resources to obtain clean audit opinions months after the end of the year through the use of extensive workaround processes and manual efforts versus using these resources to develop long-term solutions to financial management and systems deficiencies?

Answer: Mr. Chairman, I am also concerned about workarounds. I do believe we are seeing progress at the IRS. In fact for the IRS to receive an unqualified opinion is not only noteworthy but they deserve congratulations. I view the workarounds and manual efforts as steps that were necessary to clearly identify what needs to be fixed going forward—short-term measures that yielded positive results now and laid the groundwork for long-term financial management and systems solutions. If confirmed, I intend to become significantly engaged on an ongoing basis with IRS, the General Accounting Office, and the Treasury Inspector General for Tax Administration to ensure that the lessons learned from achieving an unqualified opinion the “hard way” are incorporated into concrete plans for correcting IRS’ systems deficiencies and internal control weaknesses. With regard to the timeliness of the financial statements, Secretary O’Neill has challenged his team to close the monthly books within 3 business days. If confirmed, I am going to work to accelerate the completion of the annual audited financial statements to a target period of November.

- a. Do you view this as time well spent?

Answer: Mr. Chairman, I do not believe the time was well spent if it has to be done every year, but I believe it is a good investment if we use the lessons learned wisely in making long-term fixes. I realize that many of the systems solutions to

long-standing problems will take several years to fully implement. However, I think we need to take a hard look now at ways to improve and streamline the interim workaround processes so IRS can develop the necessary financial management discipline continue receiving unqualified audit opinions while simultaneously working on the long-lasting solutions. While we work on those solutions, I think it is important for the Department to continue fulfilling its responsibilities under the Government Management Reform Act in order to demonstrate its accountability to the American public.

Question 2: Treasury has longstanding weaknesses in internal controls and systems deficiencies at several of its bureaus, including the Internal Revenue Service and the U.S. Customs Service.

a. How can Treasury address these problems, what will it take, and how long will it take?

Answer: Mr. Chairman, I understand that Treasury has made significant progress during the last two years in reducing material control and systems weaknesses. If confirmed, I plan on continuing this progress by working closely with Bureau management, our Inspectors General, and the General Accounting Office to ensure that we have solid plans in place to address these problems. Also, I want to be sure that the problems are properly prioritized so that we attack the most serious ones first, and that we are utilizing good risk management strategies to identify and address potential problem areas before they grow into new material weaknesses. These will all take a concerted effort by senior management across the Department. I think a good number of our longstanding deficiencies can be corrected within the next two years, while several weaknesses, particularly the IRS and Customs systems deficiencies will take longer.

Question 3: With any government agency, it is difficult to examine budget documents and tell how resources received or requested relate to results that have been achieved or are expected.

a. What is your assessment, both Treasury-wide and for the bureaus, of how well Various budget, strategic planning, and GPRA documents match resource needs with performance and results?

Answer: Mr. Chairman, as consultant, I have not had the opportunity to be engaged in the full array of products and decisions around the presentation of resource needs and related performance. I am aware that Treasury has made significant headway over recent years in putting into place the important tools to bring about the integration of resources, planning and GPRA requirements. I have noted that the budget document presents both resources proposed and the associated performance plans and targeted performance results in the justifications to the Congress, along with after-the-fact reporting against the plans. While Treasury bureaus vary in the effectiveness of implementing strategic management, I believe the Department has instituted a process to collectively drive the agency toward improvements in this area. If confirmed, I will pursue streamlining this process to assist reviewing performance on a more frequent basis.

b. What is the best way to match the needs with performance and results?

Answer: Mr. Chairman, continued integration of budgetary resources with performance results will help Treasury more directly focus its resources on strategies and programs that produce desired results. My goal if confirmed, will be to ensure that budgets are formulated based on strategic priorities, and that resources are allocated based on expected results. I plan to work to make sure that performance measures are results-oriented, that accurate and reliable performance information is readily available and used in day-to-day management of our operations, and that policy-making and resource decisions are based on program performance results both at the bureau and executive level.

Question 4: The President announced a Management Reform Agenda in August. As part of that effort, OMB has developed "standards for success" in five government-wide initiatives, including budget and performance integration. Treasury's largest agency, the Internal Revenue Service, has made many efforts to better align its budget request with its performance goals, and to develop better managerial cost information to inform its budget request.

a. What steps do you plan to take to further this development and to ensure that resulting changes are informative not only to IRS managers, but also to the Congress in fulfilling its oversight and appropriations roles?

Answer: Mr. Chairman, Under Commissioner Rossotti, the IRS has revamped its budget format to support its new approach to serving taxpayers through four main business lines working towards three strategic goals: Service to Each Taxpayer, Service to All Taxpayers, and Improved Productivity through a Quality Work Environment. These goals presented in the budget along with the performance measures to measure associated progress to achieve these goals. If confirmed, I will work di-

rectly with IRS as they develop new strategic performance measures that will provide direct measurement of their strategic goals.

b. What is the best way for IRS to highlight the few most important performance indicators in its budget justification and relate them to all the relevant resources requested in the various parts of the justification?

Answer: Mr. Chairman, The new IRS budget structure is intended to highlight IRS' strategic goals and the progress made towards achieving them. In order to relate the requested resources to the measures, IRS needs an improved cost-accounting system. Development of such a system is underway and we will continue this effort not only to relate costs to measures but also to provide better data for IRS top management and to facilitate improved financial statements.

Question 5: Many bureaus and offices within bureaus are incapable of linking cost data to performance information to assist in strategic decision making. What concrete actions would you take to improve agencies' capabilities to produce sound cost-based performance information?

Answer: Mr. Chairman, I am aware of the difficulties Treasury and other major Departments have had in both the development of sound cost data, and the linkage of cost and performance information. To improve Treasury's capabilities in this regard, two objectives are necessary. First, we must ensure that state-of-the-art financial systems are fully utilized across Treasury to collect detailed cost data into the existing corporate financial data warehouse. Second, we must properly align the Treasury program activities with both full cost and performance data to get a meaningful picture of each activity. Accomplishment of these two objectives will greatly enhance analytical capabilities and facilitate better strategic decision making across Treasury. My intention, if confirmed, would be to focus the Department on the benefits of such information and analyses, and serve as the focal point for bringing program and financial staff together to derive these benefits.

Question 6: Given the lack of good cost accounting data at IRS, how in the short term can Treasury documents best show the consequences of not achieving a specific level of funding on IRS' ability to achieve desired results?

Answer: Mr. Chairman, It is my general understanding that IRS has been developing a cost accounting system and is beginning to use it. If, confirmed, I will work with the IRS Commissioner and his senior executives/management team to begin using cost data to justify/support appropriate funding levels. One of the key steps in this process is to establish a set of baseline metrics to measure outcomes at IRS.

Question 7:

a. How can Treasury best measure these savings and show how they are being reallocated to other parts of the IRS?

Answer: It is my understanding the IRS conducted a study of the cost of processing electronic returns. The study found the average cost for paper returns (\$1.50) was twice the average cost for electronic returns (\$.74). As part of its newly implemented strategic planning and budgeting process, the IRS is working with the Department of Treasury to incorporate these savings estimates into its overall strategic plan. The key for the IRS is to channel these savings into customer service and compliance improvements that are critical to achieving its mission. Service improvements are clearly identified in the IRS' budget documents.

b. Similarly, how can Treasury best show other IRS efficiency savings achieved through technological advances and productivity increases and the extent to which they are reallocated throughout the IRS?

Answer: The best way for the IRS to show efficiencies and how they are reallocated within the IRS is to: (1) identify efficiencies during the agency's strategic planning process, (2) take the efficiencies into account when developing the annual budget request to Congress, (3) identify in the budget request how the efficiencies are being achieved, to what programs the money will be reallocated, and what will be delivered with the reallocated funds. I am advised that the IRS has followed this approach in the development of their FY 2003 budget and that the Congress can expect to see efficiencies and the use of such efficiencies clearly identified by the IRS when the President's budget is sent to Congress early next year.

Question 8: What more would you do in aggressively seeking to identify activities within Treasury that should be discontinued or made more efficient to free up resources to be used for other activities?

Answer: Mr. Chairman, I believe this is an issue in both the private and public sectors. If confirmed, my first approach to this issue is to make sure we ask ourselves why are we doing this? I'm not sure we do that enough. After we conclude that the work is rational and appropriate we need to ask if we are doing it efficiently and meeting basic measures. I believe that in all aspects of the planning process questions should be addressed regarding the base both in the strategic and budget process.

Question 9: What more would you do to identify under-investments in activities that would be candidates to receive any freed-up resources?

Answer: Mr. Chairman, as a consultant, it seems that there is a very long list of areas where freed up resources are being requested. Optimally resources allocation should be made across Treasury as a whole. Unfortunately at times this seems uneven. An example is the implementation of financial systems. We have implemented them on a bureau by bureau basis. I am concerned about resource decisions that call for ten-year implementation time frames. We must carefully review if a ten-year schedule is rational. Large scale IT projects, in particular, have fixed overhead costs that would be reduced overall if the timeframe of the project were constrained. The Treasury strategic plan is the primary source of resource allocation and I believe it should remain the primary reference for any freed up resources. A portfolio

Question 10: In recent years, IRS has adopted a very extensive strategic planning and budgeting process. To what extent, if any, can or should IRS' budget request be tied to IRS' strategic goals, similar to the way the IRS Oversight Board linked IRS budget dollars to IRS' strategic goals?

Answer: The IRS budget should be and is directly tied to IRS strategic goals. The new planning process is designed to link each and every budget dollar to the goals set forth in the IRS strategic plan. Connecting strategic and operational goals to budgets helps to ensure that the money given to the IRS is spent for programs and initiatives that take the IRS in the direction expected by the President and the Congress. This is a concept that I strongly support

At a more practical level, it is worth noting that the IRS currently sets goals for each operating unit based on the operating units' annual budgets. These operating unit goals are referred to as the IRS critical performance measures. These critical performance measures focus on customer satisfaction, business results, and employee satisfaction and are monitored by management throughout the fiscal year. By using these measures, the IRS and its oversight bodies can determine if IRS management is reaching the agency's strategic and operational goals.

Question 11: In June 2001, the General Accounting Office reported that Treasury's fiscal year 2000 performance report lacked at least some measures needed to directly assess each of the five outcomes it reviewed that had been identified as important mission areas. These five outcomes were (1) tax laws are administered effectively and fairly, (2) less waste, fraud, and error relating to the Earned Income Tax Credit, (3) improved delinquent tax and non-tax debt collection, (4) reduced availability and/or use of illegal drugs, and (5) criminals are denied access to firearms and firearms-related crime is reduced. GAO also said that based on other information it had, Treasury might be at risk of not achieving those outcomes. What will you do to ensure lasting improvements in these areas?

Answer: Mr. Chairman, my past experiences in problem resolution have taught me that true long-lasting solutions/progress come from the identification of the root causes and implementing corrective actions to address all root causes. It is my general understanding of the issues identified that the solutions do not simply reside in one place. If confirmed, my approach would be to work with the many Treasury offices involved (Office of Domestic Finance, Office of Tax Policy, Office of Enforcement) and the associated Bureau Heads to identify a set of metrics that will help us evaluate our efficiencies and inefficiencies. Some issues may require not only working with and between the various Treasury offices, but with Congress as well to identify any potential legislative changes that may help Treasury achieve the best possible outcomes.

Question 12: In January 2001, GAO listed the following areas within Treasury as areas of high risk: IRS tax systems modernization, IRS financial management, Earned Income Credit noncompliance, collection of unpaid taxes, and asset forfeiture programs. What are the steps that should be taken to remove these areas from GAO's high risk list as quickly as possible? How long would these removals be expected to take?

Answer: Mr. Chairman, As a Consultant I have observed that The Department takes all high risk issues identified by GAO very seriously. If confirmed, I intend to work closely with the TIGTA and the GAO regarding the five specific issues in question, my intention would be to ensure that a systematic and coordinated approach is taken to achieve resolution as quickly as possible. Some of the key steps toward that end include getting the right people involved in each issue, making sure that the problems are understood and the proposed solutions make sense, allocating the funds necessary to get the job done, and providing effective oversight throughout the resolution process. This basic framework for resolution already is in place for each of the five issues, although actual removal from the high-risk list will take varying lengths of time to achieve. The key is to ensure that steady, meaningful progress is maintained through effective oversight, through my office.

Question 13: Given the additional resources that will be provided for Customs for inspection personnel, how will decisions be made concerning their deployment?

(a) What role will the Custom's Resource Allocation Model play in that decision making process?

(b) What other information will be used?

Answer: Mr. Chairman, I am not aware of the full detail of the Customs Resource Allocation Model, but am looking forward to understanding more fully its methodology, as well as its application to specific staffing allocation decisions made by the Customs Service. It is my understanding that the initial allocation decisions on new resources will be made by the Customs Service, as part of a report that they will be submitting to the Congress prior to the expenditure of funds, and the Department will be reviewing that report from Customs. The specific directives included in the Emergency Supplemental appropriation will play a large part in those allocations, since new funding proposed for the Customs Service has most new staffing dedicated directly on the Northern Board locations, whereas the Customs Model, which is national, may not yield result. The Model was developed significantly earlier than September 11th, therefore, might not have the full array of security priorities that recent events have brought into more direct focus.

Question 14: In light of the tragedy of September 11, law enforcement programs within the Department of the Treasury are of even greater importance and prominence than they have been in the past. Thus, the need for oversight and coordination of their activities by the Office of Enforcement is greater than ever. In March 2001, GAO recommended that the Secretary of the Treasury take actions to develop and implement a policies and procedures manual to ensure that circumstances under which the Treasury law enforcement bureaus interact with the Office of Enforcement are clearly defined, document, and available. What actions have been taken and what additional actions should be taken to ensure appropriate coordination and prioritization of law enforcement bureau activities?

Answer: Mr. Chairman, as consultant, I have not been engaged in the follow-on from these recommendations. I do concur with the ever-increasing oversight and coordination roles necessary by the Secretary, the Office of Enforcement, and Management around the issues of policy and operations, particularly, in light of the recent tragedy of September 11th. I look forward to working with the Under Secretary of Enforcement in ensuring that these important recommendations are implemented, and that the resources invested for our critical law enforcement entities are invested wisely and in line with expectations of the American people.

