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## **Rossotti's Hires Raise Red Flags - Charles Rossotti**

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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."

But former IRS historian Shelley Davis says those critical-pay positions were created for the best-qualified experts, not for friends and cronies of the commissioner. "He needs to broaden his reach," Davis tells Insight. "There are boatloads of top-notch executives who could be enticed to serve their country at least for a while." Davis says Rossotti's hirings, combined with his stock holdings in AMS, "is one of the best rackets. To this day, I'm trying to figure out why there hasn't been a greater level of outrage."

Another concern about IRS being run by those close to AMS is that Rossotti's former company is racking up an increasing number of failures in projects with federal and state agencies. According to Washington Technology magazine, "a string of legal conflicts ... are casting a pall on the company's operations." In 2000, a jury in Mississippi found AMS guilty of defrauding the state and breaching a contract to overhaul the tax system. It ordered AMS to pay Mississippi \$474.5 million, which later was negotiated down to \$185 million.

At the time, some stock analysts called the verdict an anomaly in an eccentric Southern state, saying it did not reflect the quality of the company's work. That line got harder to maintain when a prominent federal agency filed a \$350 million lawsuit in July, charging AMS with the same misdeeds the company was found guilty of in Mississippi. The Federal Retirement Thrift Investment Board, which handles retirement plans for federal employees, filed the lawsuit accusing AMS of "fraudulent procurement, fraudulent performance and reckless breach of contract with the Board to build a computerized record-keeping system" [see "Rumsfeld Inherits Financial Mess" Sept. 3].

The lawsuit, which caused the AMS share price to fall nearly 25 percent on the day it was announced, also contains this scathing statement: "In hindsight, it is now also clear that such misconduct is a part of AMS' business practice; AMS has recently been held liable for defrauding the state of Mississippi over a period of years in ways virtually identical to those alleged therein."

AMS again did not return Insight's calls seeking the company's viewpoint on the various disputes.

Even in Kansas, which has won an award from the Federation of Tax Administrators and which AMS touts as one of its success stories, lawmakers of both parties still remember the flood of phone calls to their offices about the late refunds and erroneous delinquent notices in 1999. They question whether the former secretaries of revenue now in Washington had the state's best interests at heart.

"We had grave concerns about whether the AMS computer system was delivering as advertised," says Kansas state Rep. Tony Powell (R-Wichita), who chairs the House Ethics and Elections Committee. "Our eyebrows were raised when Secretary LaFaver went to work for Mr. Rossotti, and to see him now going to work for AMS really raises a lot of questions in my mind as to whether the decision that the [Kansas] department [of revenue] made to bring in AMS was based on objective considerations that would benefit the state." Powell notes that the department asked for an unexpected \$40 million more this year, hardly a savings.

Powell tells Insight that he may launch committee hearings about appearances of impropriety and AMS' business practices. "The information certainly raises questions as to whether AMS gets contracts more because of its relationships with decisionmakers as opposed to the actual success of its product."

Similar concerns have been raised in Ohio. There, the Association for Children for Enforcement of Support (ACES) filed a class-action lawsuit against AMS and the state on behalf of parents it alleges were sent late child-support checks because of errors in the state's child-support collection and payment system designed by AMS. A state inspector-general's report found "reasonable cause to believe wrongdoing occurred" as a result of actions by the former director of the Ohio Department of Human Services.

Against the advice of his legal counsel, the now former director, Arnold Tompkins, awarded many millions in unbid contracts to AMS in the late 1990s, in possible violation of federal law. Less than two months after leaving state service in 1998, Tompkins' new consulting firm received a \$20,000 contract (its first) from AMS. The company later put him on a \$10,000-a-month retainer. The inspector-general's office has referred its report to a county prosecutor for possible criminal charges against Tompkins for violating the state's revolving-door law. Tompkins' attorney, Larry James, denied the former director was guilty of any wrongdoing.

Gerri Jensen, president of the Toledo, Ohio-based ACES, sees a common thread with Rossotti's hirings at the IRS. "I'm not surprised that there are these problems, especially with everything we've been through here in Ohio," she tells Insight.

When the Bush White House was asked if it was concerned with Rossotti's potential conflicts of interest and the last-minute waiver he received from the Clinton administration, a spokeswoman suggested a call to the Treasury Department. Treasury spokeswoman Tara Bradshaw read this statement to Insight: "The Secretary [Paul O'Neill] is aware of the pre-existing waiver. He has confidence in the ethics officials who made this determination." It should be remembered that O'Neill sold his own \$100 million holding in Alcoa, which he had headed, to avoid the appearance of any conflict of interest -- despite the opinion of those same ethics officials that he need not do so.

Klayman warns that if the Bush administration doesn't do anything about Rossotti's conflicts of interest, it will be left holding the bag for potential scandals, even though Rossotti was appointed by Clinton. "It's time that the Bush administration started to look critically at Rossotti, because he is an ethical volcano waiting to explode in their faces," Klayman says.

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