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Kelley: Mellon Bank Settlement Underscores Issues Of Contractor Oversight and Accountability

Washington, D.C.—A Justice Department settlement with one of the country’s largest banks over its failure to properly oversee the handling and processing of tens of thousands of tax documents and some \$1 billion in tax payments highlights once again the serious questions swirling around federal oversight of private contractors and contractor accountability for their work, the leader of the nation’s largest independent union of federal workers said today.

The government agreed to accept reimbursement of \$30,000 from Mellon Bank of Pittsburgh, Pa., for the federal cost of hiring a third party to review the bank’s compliance and ethics programs, despite the bank’s serious failures in connection with its role as a participant in an Internal Revenue Service (IRS) lockbox program in 2001.

Previously, Mellon Bank paid \$18.1 million in restitution to cover the interest the treasury would have received from payment checks that were destroyed by bank employees, and to cover the costs of moving the IRS processing facility to another contractor. While former employees face possible prison terms, Mellon Bank itself escaped fines or prosecution over the scandal.

“This entire fiasco,” said President Colleen M. Kelley of the National Treasury Employees Union (NTEU), “highlights many of the dangers inherent in continuing efforts to move as much

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Kelley Critical of Contractor Oversight, Accountability—add one

federal work as possible to the private sector.”

She added: “You would think and hope that by now we would have come to understand the important lessons about taxpayer privacy and the security of their information that these kinds of episodes teach us—but it’s clear the administration hasn’t,” noting that the IRS is about to implement a program in an even more sensitive arena—the use of private sector debt collectors to pursue tax debts.

NTEU, and many others—including members of Congress and the National Taxpayer Advocate—have been warning for some time about the serious flaws and high costs associated with that program.

As to Mellon Bank, its contract with the IRS called for it to send returns to an IRS facility for processing while depositing the checks in an agency account at the bank.

Problems arose when bank employees were unable to respond to management pressure to meet an IRS contract deadline. Faced with that pressure, they destroyed tens of thousands of tax returns—perhaps as many as 80,000—containing checks totaling about \$1 billion. One person pleaded guilty to a criminal charge in connection with the case; six others are awaiting trial.

President Kelley noted with some irony that in the wake of the actions by employees of one of its contractors, the IRS turned to its own workers to fix things. IRS employees at the Andover Service Center in Massachusetts reconstructed all of the missing tax returns and worked with taxpayers to get the appropriate payments made.

Then, she said, “rather than acknowledge the terrific work of its own employees in fixing this contractor mess, the IRS furloughed the employees and turned around and sent the work back out to another bank under contract as part of the lockbox program.”

As the largest independent federal union, NTEU represents 150,000 workers in 30 agencies and departments, including 94,000 in the IRS.

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