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On the Take: IRS Chief Rossotti Gets Kickbacks from Corporate- Government Fraud

by Uri Dowbenko

The multi-millionaire IRS Commissioner Charles Rossotti acts as if the usual rules don't apply to him. And actually he's right. They don't.

In a glaring conflict of interest, Charles Rossotti, Commissioner of the US Internal Revenue Service and former Chairman of American Management Systems Inc. (AMS), has retained between \$16 million and \$80 million of AMS stock.

It's the ultimate insider's deal. In essence, Rossotti gets a kickback every time AMS, a computer data-processing company based in Fairfax, Virginia, gets a new government contract.

Rossotti's ownership of AMS stock was revealed in financial disclosure forms filed in May 2000.

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In 1998, the New York Times reported that Rossotti was the largest individual shareholder in AMS, a company that had revenues of \$1.28 billion in 2000.

Unlike Vice President Dick Cheney who sold his Halliburton Corp. stock and Treasury Secretary Paul O'Neill who sold \$100 million worth of his Alcoa Corp. stock, Rossotti refuses to divest.

In fact, Rossotti flaunts his conflict of interest and ethically challenged behavior.

Appointed by President Clinton in 1997, Rossotti's brazen ethics-be-damned position is buttressed by the fact that later he received an executive waiver of conflict of interest rules from the Clinton Administration.

According to Insight Magazine ("IRS Boss Snagged Clinton Waiver" by John Berlau, April 30, 2001), Rossotti got a waiver from Stuart Eizenstat, Clinton's deputy Treasury Secretary. This last minute waiver allows Rossotti to participate in decisions regarding AMS contracts with the IRS. In essence, Rossotti can continue to ensure that AMS interests - and his own - continue to be served by new as well as ongoing government contracts.

Incidentally AMS is supposed to be paid more than \$17 million by the IRS this year for "add-ons" to existing contracts for internal software systems -- the so-called Custodial Accounting Project (CAP).

IRS continues to give AMS these add-on contracts without taking new bids from any AMS competitors.

This egregious corporate-government fraud by IRS Commissioner Charles Rossotti is unprecedented in recent history.

AMS: Corporate Insiders at the Government Trough

Founded by Charles Rossotti in 1970, AMS has leveraged its insider contacts and government contracts into a \$1.28 billion global business with clients that include more than 43 state governments and federal agencies.

From 1965 to 1969, Rossotti himself was one of the so-called "Whiz Kids" of Defense Department Secretary (and unindicted war criminal) Robert McNamara, whose legacy remains the failed policy to prosecute the bogus Vietnam War.

Rossotti worked in the Office of Systems Analysis within the Office of the Secretary of Defense. The Office's claim to fame was inventing the use of "body counts" (dead "enemy" soldiers) as a gauge of "success" during the infamous war. McNamara received an MBA from Harvard Business School in 1939, and Rossotti got his MBA from Harvard in 1964.

Headquartered in Fairfax, Virginia, AMS has approximately 8,750 employees in 512 offices worldwide. According to the AMS website, its clients include the Environmental Protection Agency (EPA), General Services Administration (GSA), the Army Reserve, State Department, Treasury Department and the Department of Defense.

In its 1997 Annual Report, AMS claims that the "US Department of Defense (DoD) has contracted with AMS for the Standard Procurement System to automate and streamline the DoD-wide procurement system."

The automation has evidently been so

"successful" that four years later whistleblower Al Martin, a former Naval Intelligence officer, reports that Defense Department fraud is at an all time high. (See "Fraud for Lunch at Redstone Arsenal," www.almartinraw.com/column11.html)

In his report on government fraud, Al Martin writes that "at the party, there was an active lieutenant general, an active three star general no less, who was talking about moving his fraud money to Corsica. This is the type of scam that's been done for years. He's just doing it a little more professionally. It's called the Old Double-Inventory-Whammo-Scam, and it's often done against the Department of Defense. The general is doing it with his clique of ten confederates. Some are in DoD Procurement. Some are in DoD Inventory Control. Some are in DoD Payment and Disbursement. And some are in DoD Audit. You have to have someone in each of these offices to make the scam work"

"He was bragging about it," Martin continues. "'We just committed this scam last week. It cost \$40,000 and it netted \$2.5 million.' He said his end was \$250,000 and it just got wired to his offshore account. He's going to bury the money by buying a piece of beachfront property in Corsica because he doesn't have anything else to do with it."

"The scam is relatively simple," Martin writes. "They are reselling back to the Department of Defense actual Department of Defense inventory items that the Department of Defense already owns, but doesn't realize it owns. They go through the massive Department of Defense inventory list. They look for some esoteric but generic part. It doesn't have to be big. Just something that can be easily misplaced or mislaid."

"What this guy does on the inside is he

simply deletes from the computer. That's all he does. He deletes it. He doesn't leave a paper trail pretending it was sold to some other company. It's just erased. It's just deleted."

By the way, at Donald Rumsfeld's confirmation hearing, Senator Robert Byrd (D-WV) said, "I seriously question an increase in the Pentagon budget in the face of the Department's recent Inspector General's report. How can we seriously consider a \$50 billion increase in the Defense Department budget when DoD's own auditors say the Department cannot account for \$2.3 trillion transactions in one year alone?"

Rossotti's IRS Shakedowns: Political Enemies Audited

The long-standing tradition of failing upward has finally landed Rossotti in the office of Commissioner of the Internal Revenue Service.

According to his website bio, (www.ustreas.gov/press/officers/rossotti.htm) Charles Rossotti "assumed his duties as Commissioner on November 13, 1997, pledging to turn the IRS into an organization that will consistently provide first-class service to the American public."

This stance belies the ugly reality of the IRS and its ongoing shakedowns of perceived political enemies. Its well-known tactics of fear and intimidation have been increasing steadily, marking the IRS as a reasonable facsimile of Soviet thuggery and/or banana republic corruption.

Since Rossotti assumed office, many political enemies of the administration have suffered IRS audits. These audits can only be construed as politically motivated de facto

harassment.

A partial list of those targeted by Rossotti and his allegedly "kinder gentler" IRS include:

- Joseph Farah and The Western Journalism Center
- Juanita Broaddrick, who publicly accused Clinton of raping her while he was Arkansas attorney general
- National Center for Public Policy, a group critical of Clinton's environmental policies
- Bill O'Reilly of Fox News' The O'Reilly Factor
- Citizens Against Government Waste.
- Catherine Austin Fitts, former FHA Commissioner under Jack Kemp and President of Hamilton Securities, a company which ironically saved HUD \$2.2 billion through its innovative loan sales/auction

Rossotti Hires AMS Pals for High-Paying IRS Jobs

The IRS Restructuring and Reform Act of 1998 mandated that the IRS Commissioner hire non-IRS personnel for top positions in the tax-collection agency.

In an obvious quid pro quo, IRS Commissioner Rossotti then managed to hire two state tax honchos who had a prior history with AMS.

John LaFaver, Secretary of Revenue for the State of Kansas, was appointed IRS deputy commissioner for modernization, while Val Oveson, formerly chairman of the Utah State Tax Commission, was appointed

national taxpayer advocate.

Even though both officials have since left IRS, both LaFaver and Oveson headed state agencies, which hired AMS to oversee the modernization of their respective states' tax collection computer systems.

In another instance of the revolving door syndrome between corporate and government networks, LaFaver's successor as Kansas Secretary of Revenue, Karla Pierce, went to work for Computer Sciences Corp, the lead contractor in IRS "modernization" project. Pierce, likewise, had been project manager when AMS's Kansas contract began.

Rossotti's AMS Sued for Breach of Contract

The corporate history of AMS is rife with lawsuits.

According to its Proxy Statement (2000), AMS has been sued at least several times by its own clients for sub-standard performance, shoddy work and breach of contract.

For example, in 1993, the State of Mississippi had contracted with AMS to improve and integrate its tax collection software. By April 1999, "not a single tax-collection software program was operational," read the lawsuit, filed on April 22, 1999 against AMS.

On August 23, 2000, a jury found AMS guilty of breach of contract and ordered to pay the State of Mississippi \$474.5 million in actual and punitive damages.

Eventually the case was settled for \$185 million, of which about \$102 million was paid by its insurers.

In 1999, AMS Technical Systems, an AMS subsidiary, was sued by Bezeq, the Israeli telecommunications company. Bezeq alleged that AMS was in breach of contract and sought damages for \$39 million. The case was later settled out of court.

In 1995, AMS's Form 10-K reported that Andersen had also sued AMS for copyright infringement and appropriation of trade secrets.

Rossotti's AMS and the "Missing" \$59 Billion at HUD

One of the most outrageous breaches of public trust (or in-your-face fraud) has been the Department of Housing and Urban Development's (HUD) "loss" of \$59 billion in Fiscal Year (FY) 1999 and \$17 billion in FY 1998.

According to the Government Accounting Office (GAO), the company responsible for the HUD software system called HUDCAPS was Rossotti's company, AMS, as well as a company called Advance Technology Systems (ATS).

Despite the poor performance, HUD continued to pay on its contract to AMS, even though the system didn't work and \$59 billion was "missing."

The HUD Audit Debacle was then blamed on the agency's financial reporting systems, i.e. accounting software. In fact in her statement to Congress, HUD Inspector General Susan Gaffney reported that she could not validate an audit of the books. In other words, there has been no audit of HUD financial statements for 1999. And \$59 billion is still "missing."

In May 2000, Gaffney herself told

lawmakers that "the material weakness is that HUD does not have a single financial ledger system in place... the financial systems flowing in were incompatible and the system rejected the transactions. The rejected transactions weren't corrected in the new ledger system."

Gaffney's conclusion was that "HUD does not have a reliable and accurate statement of its financial condition."

In other words, then HUD Commissioner Andrew Cuomo (who plans to run for Governor of New York, while "losing" \$59 billion during his tenure at HUD) used AMS to install an accounting system, which has never worked.

The HUDCAPS system has supposedly been going online since 1997. According to Gaffney, HUDCAPS does not work and that a new so-called "add-on" system is being implemented.

It's well known among insiders that "computer glitches" are often used as an excuse to hide fraud within government agencies.

The Office of Management and Budget (OMB), which has the power to rein in this fraud by cutting the HUD budget, has heretofore refused to take responsibility.

And, so far, AMS has avoided a PR debacle - primarily because mainstream media has studiously avoided mentioning its role in HUD's "missing" \$59 billion scandal.

AMS, however, continues to be paid on its \$250 million HUD contract - despite its non-performance and its breach of contract in providing HUD with a useable accounting system.

Rossotti must be smiling. But you'd be smiling too - if you weren't held accountable. And if you had between "\$16 million and \$80 million" worth of AMS stock that was going up while you slept. As IRS Commissioner, Charles Rossotti has reached the pinnacle of corporate-government fraud.

After all, who's going to trifle with the guy?

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