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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY

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STATEMENT OF

JOHNNY C. FINCH, ASSOCIATE DIRECTOR

GENERAL GOVERNMENT DIVISION

BEFORE THE

SUBCOMMITTEE ON COMMERCE, CONSUMER,

AND MONETARY AFFAIRS

COMMITTEE ON GOVERNMENT OPERATIONS

HOUSE OF REPRESENTATIVES

ON

INTERNAL REVENUE SERVICE EFFORTS TO ENFORCE TAX-EXEMPT PRIVATE FOUNDATION REPORTING REQUIREMENTS

C O N T E N T S

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here to assist the Subcommittee in its inquiry into the Internal Revenue Service's (IRS') efforts to enforce those reporting requirements of the Internal Revenue Code applicable to tax-exempt private foundations. Our testimony is based on extensive work we have done in response to this Subcommittee's request. Our final report on these matters should be issued within the next month or so.

Overall, our review showed that the information which private foundations are required by law to submit to IRS is important both for public information purposes and for tax administration purposes. We found that private foundations generally comply with the reporting requirements which IRS, through its actions, has shown are important. However, IRS has devoted little attention to certain reporting requirements for information which would be useful to the public and the Congress for monitoring foundation activities and to grant seekers for identifying those foundations most likely to fund their programs. Consequently, most foundations do not comply as well with those requirements. To assure availability of all information mandated by law, IRS needs to make certain changes in its enforcement activities.

BACKGROUND

According to a 1982 IRS study, about 28,000 tax-exempt private foundations filed returns for tax year 1979 showing about $35 billion in assets and about $3 billion in charitable contributions, gifts and grants. In general, because foundations are recognized as exempt from Federal income tax, their assets, while under the direct control of private individuals, are to be permanently dedicated to public purposes.

To help assure that foundations serve public interests, as opposed to private financial interests, the Internal Revenue Code requires extensive reporting on the returns foundations file with IRS and makes those returns available for public inspection. These requirements were enacted primarily to (1) facilitate congressional, general public, and IRS oversight of private foundations, and (2) enable grant seekers to obtain the information necessary for seeking funding from private foundations.

When we began our review in September 1981, most private foundations were required to file two returns with IRS--the 990PF and the 990AR. Attachments I and II to my prepared statement contain copies of these returns. The 990PF return was developed primarily for tax administration purposes. For example, IRS uses the return information to verify the computation and payment of the excise tax based on foundation investment income and to monitor compliance with various tax exemption requirements, such as adherence to specific self-dealing or business holding restrictions. The 990PF return also contains some information more related to public needs, such as the identity of those individuals responsible for managing a foundation.

The 990AR return was developed primarily for public information purposes. The return required, among other things, detailed information on foundation grant-making programs and investment holdings. The sponsor of the legislation which established the reporting requirements in the Tax Reform Act of 1969 believed that the operation of a tax-exempt foundation is a public trust and that information on foundation activities is of public concern. He believed that if a foundation made a grant for a questionable purpose or was operated in a manner not consistent with the public interest, it would be surfaced through the reporting requirements. Further, he recognized the information needs of concerned people who want to get contributions and grants from foundations.

Subsequent to the initiation of our review, the two returns were consolidated into one--a revised 990PF--a copy of which is contained in attachment III to my prepared statement. The new return affected tax year 1981, but was not required to be filed until 5-1/2 months after the close of a foundation's fiscal year. As a result, some foundations probably would not have first filed the return until as recently as this month. Because of this and since the new return did not delete any of the existing reporting requirements, we based our review on the 990PF and 990AR returns that had been filed with IRS and were available at the time we did our work.

Specifically, we selected random samples from the 14,860 990PF returns and 10,930 990AR returns that were processed by

IRS' Andover, Brookhaven, and Kansas City Service Centers during 1981.[1] Accordingly, the data presented in this testimony represent projections from our samples to those universes and are subject to certain precision levels. A detailed explanation of our review objectives, scope and methodology are contained in attachment IV to my prepared statement.

Basically, we reviewed the 990AR and 990PF returns for completeness from two perspectives. First, we reviewed the returns to determine if they reported complete information on those return items which IRS, considering budgetary constraints on its service center operations for processing the returns, had identified as necessary for efficient administration of the tax law. We refer to these items as tax administration reporting requirements. Second, we reviewed the returns to determine if they reported complete information on 19 reporting items which essentially make up 3 sections of the two returns. As required by the Internal Revenue Code, these sections concern foundation grant-making programs, investment holdings, and managers. Public interest groups we spoke with cited a need for this information. We refer to these items as public information reporting requirements.

In view of the limited time available this morning, I would now like to summarize our findings, conclusions, and

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[1]/The universe of 990PF and 990AR returns are not equal primarily because foundations with less than $5,000 in assets were not required to file a 990AR return and because of the manner in which returns selected for examination were processed and stored.

recommendations with respect to the reporting practices of private foundations and IRS' efforts to assure complete reporting. Attachments IV through VII to my prepared statement contain the detailed results of our work; and I will refer to them, as appropriate, throughout my testimony.

FOUNDATION RETURN INFORMATION
IS IMPORTANT TO THE PUBLIC

With the reductions in Federal aid to education, health, and social welfare, as well as to the public in general, many people will probably look to private charitable organizations, such as tax-exempt private foundations, to help fill that gap. In this regard, the returns filed with IRS by private foundations are an important, and often unique, source of information for grant seekers in determining whether or not to seek financial support from individual foundations.

In general, the public's information needs center on (1) the types of grants made by foundations, (2) the identities of those responsible for managing foundations' activities, and (3) foundations' investment holdings. The listing of grants on the old 990AR return, as well as the new 990PF return, provides grant seekers with an indication of which private foundations nationwide have interests similar to the grant seekers and would thus be most likely to fund the grant seekers' proposals. Often, the return is the only readily available source for this information. Further, without the returns it would be more difficult for the public and the Congress to monitor private foundation grant-making programs.

Grant seekers are also interested in the identity of those who make the foundation's decisions. The managers listing on the old 990PF return, as well as the new 990PF return, is a primary source of this information. This listing provides the name of a potential contact within the foundation to lobby for funding, promote grant proposals, and/or obtain knowledge of the types of grants a foundation will consider. Additionally, information on foundation management promotes public oversight because it provides information on who is controlling foundation assets.

Those interested in exercising general oversight of private foundations need information on foundations' assets and how they are managed. As a condition for tax-exempt status, foundations and all other charitable organizations are required to permanently dedicate their assets to public purposes. Without adequate information on the extent and nature of foundations' investments and other assets--information provided primarily on the 990AR return and now on the revised 990PF return--the Congress, the public, and IRS would have a difficult time identifying possible conflicts of interest, such as investments which appear to be more beneficial to officers of the foundation than to the public. They would have an equally difficult time overseeing whether foundations are receiving a reasonable return on their investments and maintaining the financial strength needed for continued charitable activities.

Information which simplifies the search for foundation support is in substantial demand and is therefore widely distributed and used. During 1981, The Foundation Center, a national tax-exempt service organization founded to make information on private foundations more accessible to the public, provided assistance to over 120,000 grant seekers and others interested in foundation activities through its branch offices and cooperating libraries located throughout the country. The Center publishes numerous directories, data books, and extracts from computer based information systems. Over 40,000 copies of these information items were sold in 1981. Additionally, the Taft Corporation, a private profit-making concern, publishes a wide variety of directories and provides other information services to help grant seekers more effectively identify sources of foundation support. According to the Foundation Center, the Taft Corporation and others, much of the information published on foundation activities is based on, and available only from, the returns private foundations file with IRS. Thus, the need for accurate and complete information is apparent.

MANY FOUNDATIONS DO NOT PROVIDE COMPLETE PUBLIC INFORMATION

Although the public needs and uses private foundation return information, most foundations filing returns at the three service centers we visited had not fully disclosed certain required information on their grant-making programs, investment holdings, and/or managers. On the other hand, most foundations had complied with those reporting requirements that IRS has indicated as being necessary for efficient and effective administration and enforcement of the tax exemption laws.

Overall, we estimate that about 41 percent of the 990PF returns and 94 percent of the 990AR returns filed at the three service centers omitted information on at least one of the 19 public information reporting items we reviewed. Moreover, about 70 percent of the 990AR returns did not provide complete information on 25 percent or more of these public information reporting items. Specifically, our analyses of foundation returns for complete public information reporting showed the following.

--About 79 percent of the 990AR returns did not report complete information on grants paid during the year. Most significantly, about 59 percent did not report complete grant purpose descriptions and about 72 percent did not report grant recipient addresses.

--About 31 percent of the 990AR returns did not report complete information on asset holdings. Most significantly, about 28 percent did not adequately describe all securities and other assets.

--About 41 percent of the 990PF returns did not report complete information on those responsible for managing the foundation. Most significantly, 32 percent reported no information.

In contrast, about 92 percent of the 990PF returns and 99 percent of the 990AR returns we sampled reported all the return information that IRS had identified as being necessary for efficient administration of the tax exemption law.

Further details on our analyses of private foundation returns are contained in attachment V to my prepared statement. However, I would like to take a moment to point out that the reporting problems we found are not just attributable to small foundations. With certain exceptions, larger foundations--those with $1 million or more in assets and/or $100,000 in revenue--were just as likely to file incomplete 990AR returns as the smaller foundations. Because of the concentration of economic and grant making resources, the significance of incomplete reporting by even a few larger foundations is considerable. For example, data developed by IRS shows that foundations with revenues exceeding $100,000--although substantially outnumbered by smaller foundations--control about 91 percent of total foundation assets and make about 90 percent of total foundation contributions, gifts, or grants.

LESS IRS ATTENTION GIVEN TO PUBLIC INFORMATION REPORTING REQUIREMENTS THAN TO TAX ADMINISTRATION REQUIREMENTS

Based on our review work, we believe that the difference between the high level of foundation compliance with the tax administration reporting requirements and the substantially lower levels of compliance with the public information requirements stems from IRS' insufficient attention to the public information requirements.

When certain information needed for tax administration purposes is omitted from foundation returns, IRS service centers correspond with the foundations to obtain the information. After this initial correspondence, usually about 98 percent of the 990PF returns were complete with respect to those return items which IRS had identified as necessary for efficient administration of the tax laws. Therefore, rather than corresponding a second time to correct the relatively small remaining tax administration reporting problem, IRS uses its examination program to further improve foundation compliance with the tax administration reporting requirements. In this regard, the Internal Revenue Manual instructs examiners to review any service center requests of foundations for data needed to complete returns and to resolve any discrepancies during examinations.

In contrast, IRS makes little effort to assure the completeness of public information items on foundation returns. With few exceptions, IRS service centers do not routinely correspond with foundations' to obtain missing information on foundation grant-making programs, asset holdings, or managers. For example, IRS procedures require service centers to correspond with foundations only to obtain missing information relating to their managers and then only when certain conditions are present, such as indications that managers are being compensated. Given these criteria, we found that the service centers we visited corresponded very infrequently on the estimated 6,100

990PF returns they received with incomplete manager information. Our analysis indicates that less than 1 percent of the foundations which filed the estimated 6,100 returns were requested to provide more complete information.

Not corresponding routinely, at least once, for missing public information items places on IRS' examination program the burden of securing such information and of improving public information reporting. However, IRS has not made a concerted effort to use its examination program to motivate foundations toward full information disclosures on their annual returns. Neither has IRS attempted to use the late filing penalty as an enforcement sanction to encourage compliance with the reporting requirements.

As a first step in its process for selecting returns for examination, IRS uses a computerized scoring system to rank the returns. However, the computer scoring system does not guarantee that returns with incomplete public information will receive high scores and thus be selected for examination. In fact, a foundation not adequately reporting information on its grant-making programs, investment holdings, or managers, could receive the same computer score as a foundation reporting complete information.

As a second step in the selection process, returns with high computer scores are forwarded to the district offices where they are reviewed manually to identify those with the greatest potential for tax exemption noncompliance. However, our statistical analysis of a sample of those returns showed that reviewers were just as likely to select complete 990AR returns for examination as incomplete ones, and were more likely to select complete 990PF returns than incomplete ones.

Even when returns with missing public information are selected for examination, IRS examiners frequently overlook the missing items. On the basis of our review of 182 of the 1,365 private foundation examination files at the three service centers, we estimate that about 72 percent of the 1,365 examination files involved incomplete returns for public information purposes. However, we estimate that IRS examiners only notified about 8 percent of the examined foundations about incomplete reporting problems.

Moreover, about 25 percent of the examination files did not contain a 990AR return, even though the foundations reported assets exceeding the dollar requirement for filing such a return. We believe the absence of the 990AR return indicates that the quality of public information reporting was not a material part of the examination. We further believe that IRS examiners' inattention to missing 990AR information stems, at least in part, from the lack of specific examination guidelines for public information reporting items.

Another reason IRS examinations have not effectively detected incomplete information on private foundation returns is that IRS management does not have adequate data for monitoring the incomplete reporting problem. IRS has a management information system which provides managers with a mechanism for monitoring certain compliance problems uncovered during examinations. It also conducts Taxpayer Compliance Measurement Programs to measure exempt organization, including private foundation, compliance with the tax-exemption laws and to develop computer-assisted examination selection methods. However, neither the management information system nor the compliance measurement programs have included data on incomplete reporting for public information purposes.

By not using either the information system or compliance measurement program to accumulate data on incomplete reporting, IRS management does not know the extent of noncompliance with public information reporting requirements identified during examinations of foundations nationwide. Consequently, IRS managers lack useful information for (1) modifying examination procedures or objectives to respond to this aspect of noncompliance or (2) determining whether taxpayer education programs are needed, and/or return forms or instructions should be clarified.

When missing information is detected but not provided, the Internal Revenue Code authorizes a penalty of $10 for each day the information is not provided up to a maximum of $5,000. IRS has neither assessed the penalty nor established procedures to do so. However, Treasury and IRS officials have recognized the need for such a penalty to improve the completeness of reporting and have considered several proposals for implementing the penalty provisions. Even so, each proposal has been withdrawn due to various concerns, such as the method of implementation proposed or the costs involved.

Attachment VI to my prepared statement contains more details on our evaluation of IRS' administration and enforcement of the private foundation reporting requirements.

CONCLUSIONS AND RECOMMENDATIONS

Considering the public's need for and use of private foundation return information, IRS should be working more with foundations to assure they are making full information disclosures on their returns. The success IRS has had in securing foundation compliance with the tax administration reporting requirements indicates that by placing more emphasis on public information reporting during existing correspondence and routine foundation examination programs, improved compliance with those requirements could be obtained as well. Therefore, IRS needs a more systematic means for enforcing private foundation reporting practices.

Various approaches are available to IRS for securing greater foundation compliance with the public information reporting requirements. These are discussed in detail in attachment VII to my prepared statement. However, we believe that by adopting a combined enforcement approach--one which involves certain changes to the service center correspondence program, the district office system for selecting returns for examination, and the examination process itself--IRS could better secure foundation compliance without significantly increasing its present resource commitment to enforcing tax exemption law.

Regardless of the overall enforcement approach IRS adopts, it needs to increase the emphasis it gives to public information reporting during examinations of private foundations. To accomplish this, it needs to revise the Internal Revenue Manual to clarify the responsibility of examiners to secure compliance with the Internal Revenue Code's public information reporting requirements. For IRS examiners to uniformly recognize incomplete reporting, particularly as it relates to grants and investments, they should have clear instructions specifying the information to be reported and the steps they should take to secure compliance.

Similarly, regardless of which approach IRS adopts to secure increased compliance with the reporting requirements, it needs to collect sufficient information for monitoring and assessing private foundation progress in making complete public information disclosures. Such information would enable IRS management to make more informed decisions on the degree of effort to apply to the problem or whether to modify the enforcement approach.

Finally, IRS needs to develop procedures for implementing enforcement sanctions to compel compliance with the reporting requirements, when appropriate. Congress has provided IRS with the authority to assess a penalty against incomplete return filers; but, IRS has not yet attempted to use the penalty. The penalty should be used if foundations refuse to provide the information required by the returns after IRS has systematically taken actions to secure compliance.

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Mr. Chairman, the theme of my testimony today is very simple. Congress has enacted legislation for the purpose of promoting disclosure of certain information by tax-exempt foundations. Its desires in this regard, however, are not being fully realized because IRS has not effectively enforced private foundation compliance with certain reporting requirements. As we noted above and will discuss in more detail in our forthcoming report, we have some thoughts on how IRS can more effectively administer the tax-exempt foundation reporting requirements.

This concludes my prepared statement. We would be pleased to respond to any questions.

ATTACHMENT I

ATTACHMENT I

Form **990-PF**

Department of the Treasury
Internal Revenue Service

Return of Private Foundation Exempt from Income Tax

Under Section 501(c)(3) of the Internal Revenue Code

1980

For the calendar year 1980, or tax year beginning , 1980 and ending , 19

Please type, print, or attach label. See Specific Instructions

Name of organization

Address (number and street)

City or town, State, and ZIP code

Employer identification number

If the foundation is in a 60-month termination under section 507(b)(1)(B) check here . ▶ ☐

Fair market value of assets at end of year

If address changed, check here ▶ ☐ Foreign organizations, check here ▶ ☐

The books are in care of ▶

Located at ▶ Telephone no. ▶

If exemption application is pending, check here . . . . . . ▶ ☐

Part I Analysis of Revenue and Expenses (See instructions for Part I)

		(A) Revenue and expenses per books	(B) Computation of net investment income	(C) Computation of adjusted net income	(D) Disbursements for exempt purpose
Revenue	1 Gross contributions, gifts, grants, etc. (see instructions)				
	2 Contributions from split-interest trusts (see instructions)				
	3 Gross dues and assessments				
	4 Interest				
	5 Dividends				
	6 Gross rents and royalties				
	7 Net gain or (loss) from sale of assets not on line 11				
	8 Capital gain net income (see instructions)				
	9 Net short-term capital gain (see instructions)				
	10 Income modifications (see instructions)				
	11 Gross profit from any business activities: (Gross receipts ▶ $........ minus cost of sales ▶ $........) (see instructions)				
	12 Other income (attach schedule)				
	13 Total—add lines 1 through 12				
Expenses	14 Compensation of officers, etc. (see instructions)				
	15 Other salaries and wages				
	16 (a) Pension plan contributions (enter number of plans ▶........)				
	(b) Other employee benefits				
	17 Investment, legal, and other professional services				
	18 Interest				
	19 Taxes (see instructions)				
	20 Depreciation, amortization, and depletion (see instructions)				
	21 Rent				
	22 Other expenses (attach schedule)				
	23 Contributions, gifts, grants (see instructions)				
	24 Total—add lines 14 through 23				
25	(a) Excess of revenue over expenses: Line 13 minus line 24				
	(b) Net investment income (if negative enter -0-)				
	(c) Adjusted net income (see instructions) (if negative enter -0-)				

Part II Excise Tax On Investment Income

1 Domestic organizations enter 2% of line 25(b). Foreign organizations enter 4% of line 25(b)

2 Credits: (a) Foreign organizations—tax withheld at source

(b) Tax paid with application for extension of time to file (Form 2758)

3 Tax due—line 1 minus line 2. Pay in full with return. Make check or money order payable to Internal Revenue Service (write employer identification number on check or money order) ▶

4 Overpayment—line 2 minus line 1 ▶

Foreign organization—Enter book value ▶ $ and fair market value ▶ $ of investment assets held in U.S.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which the preparer has any knowledge.

Sign Here

▶ Signature of officer or trustee Date ▶ Preparer's signature

▶ Title ▶ Preparer's address (or employer's name and address)

Part III Balance Sheets

	Beginning of tax year		End of tax year	
Assets	(A) Amount	(B) Total	(C) Amount	(D) Total
1 Cash:				
(a) Savings and interest-bearing accounts				
(b) Other				
2 Accounts receivable net				
3 Notes receivable net (attach schedule)				
4 Inventories				
5 Government obligations:				
(a) U.S. and instrumentalities				
(b) State, subdivisions of States				
6 Investments in corporate bonds, etc. (attach schedule)				
7 Investments in corporate stocks (attach schedule)				
8 Mortgage loans (number of loans ▶..............)				
9 Other investments (attach schedule)				
10 Depreciable (depletable) assets (attach schedule):				
(a) Held for investment purposes				
(b) Minus accumulated depreciation				
(c) Held for charitable purposes				
(d) Minus accumulated depreciation				
11 Land:				
(a) Held for investment purposes				
(b) Held for charitable purposes				
12 Other assets (attach schedule)				
13 Total assets				
Liabilities				
14 Accounts payable				
15 Contributions, gifts, grants, payable				
16 Mortgages and notes payable (attach schedule)				
17 Other liabilities (attach schedule)				
18 Total liabilities				
Net Worth (Fund Balances)				
19 Principal fund ▶				
20 Income fund ▶				
21 Total net worth (fund balances)				
22 Total liabilities and net worth (line 18 plus line 21)				

Part IV Analysis of Changes in Net Worth

1 Total net worth at beginning of year—Part III, Column B, line 21	
2 Enter amount from Part I, line 25(a)	
3 Other increases not included in line 2 (itemize) ▶	
4 Total of lines 1, 2, and 3	
5 Decreases not included in line 2 (itemize) ▶	
6 Total net worth at end of year (line 4 minus line 5)—Part III, Column D, line 21	

Part VII Statements Regarding Activities

ile Form 4720 if you answer "No" to question 10(b), 11(b), or 14(b); or if you answer "Yes," to question 10(c), 12(b), 13(a), or 13(b). Yes No

1 (a) During the tax year, did you attempt to influence any national, State, or local legislation?

(b) During the year did you participate or intervene in any political campaign?

(c) Did you spend more than $100 during the year (either directly or indirectly) for political purposes (see instructions for definition)?

If you answered "Yes" to 1(a), (b), or (c), attach a detailed description of the activities and copies of any materials published or distributed by the organization in connection with the activities.

(d) Did you file Form 1120–POL?

2 Have you engaged in any activities which have not previously been reported to the Internal Revenue Service?

If "Yes," attach a detailed description of the activities.

3 Have you made any changes, not previously reported to the IRS, in your governing instrument, articles of incorporation, or bylaws, or other similar instruments?

If "Yes," attach a conformed copy of the changes.

4 (a) Did you have unrelated business gross income of $1,000 or more during the year?

(b) If "Yes," have you filed a tax return on Form 990–T for this year?

5 Was there a liquidation, termination, dissolution, or substantial contraction during the year?

If "Yes," attach a schedule for each asset disposed of showing: the type of asset, the date of disposition, its cost or other basis, its fair market value on date of disposition, and the name and address of each recipient to whom assets were distributed.

6 (a) Did you have at least $5,000 in assets at any time during the year?

(b) If "Yes," did you file the annual report required by section 6056 (see Form 990–AR for instructions)?

7 Are the requirements of section 508(e) (relating to governing instruments) satisfied? (See instructions)

If "Yes," are the requirements satisfied by:

(a) Language in the governing instrument (original or as amended), or

(b) Enactment of State legislation that effectively amends the governing instrument with no mandatory directions in the governing instrument that conflict with the State law?

8 (a) Enter States to which the foundation reports or with which it is registered (see instructions) ▶

(b) If you answered 6(a) "Yes," have you furnished a copy of Form 990–AR (or equivalent report) to the Attorney General (or his/her designate) of each State as required by General Instruction K.1?

If "No," attach explanation.

9 Are you claiming status as an operating foundation within the meaning of sections 4942(j)(3) or 4942(j)(6) for calendar year 1980 or fiscal year beginning in 1980 (see instructions for Part XII)?

If "Yes," complete Part XII.

10 Self-dealing (section 4941):

(a) During the year did you (either directly or indirectly):

(1) Engage in the sale or exchange or leasing of property with a disqualified person?

(2) Borrow money from, lend money to, or otherwise extend credit to (or accept it from) a disqualified person?

(3) Furnish goods, services, or facilities to (or accept them from) a disqualified person?

(4) Pay compensation to or pay or reimburse the expenses of a disqualified person?

(5) Transfer any of your income or assets to a disqualified person (or make any of either available for the benefit or use of a disqualified person)?

(6) Agree to pay money or property to a government official? (Exception: check "No" if you agreed to make a grant to or to employ the official for a period after he or she terminates government service if he or she is terminating within 90 days.)

(b) If you answered "Yes" to any of the questions 10(a)(1) through (6), were the acts you engaged in excepted acts as described in the instructions for this line?

(c) Did you engage in a prior year in any of the acts described in 10(a), other than excepted acts, that were acts of self-dealing that were not corrected by the first day of your tax year beginning in 1980?

11 Taxes on failure to distribute income (section 4942) (does not apply for years you were an operating foundation as defined in section 4942(j)(3) or 4942(j)(6)):

(a) Did you at the end of tax year 1980 have any undistributed income (lines 6(b) and (c), Part XI) for tax year(s) beginning before 1980?

If "Yes," list the years ▶........, ..., ..., ...

(b) If "Yes," to (a) above, are you applying the provisions of section 4942(a)(2) (relating to incorrect valuation of assets) to the undistributed income for ALL such years?

(c) If the provisions of section 4942(a)(2) are being applied to ANY of the years listed in (a) above, list the years here and see the instructions ▶........, ..., ..., ...

12 Taxes on excess business holdings (section 4943):

(a) Did you hold more than 2% direct or indirect interest in any business enterprise at any time during the year?

(b) If "Yes," did you have excess business holdings in 1980 as a result of any purchase by you or disqualified persons after May 26, 1969; after the lapse of the 5-year period to dispose of holdings acquired by gift or bequest; or after the lapse of the 10-year first phase holding period?

Note: *You may use Schedule C, Form 4720 to determine if you had excess business holdings in 1980.*

Part V Statements Regarding Activities (continued)

	Yes	No
13 Taxes on investments which jeopardize charitable purpose (section 4944):		
(a) Did you invest during the year any amount in a manner that would jeopardize the carrying out of any of your exempt purposes?		
(b) Did you make any investment in a prior year (but after December 31, 1969) that could jeopardize your charitable purpose that you had not removed from jeopardy on the first day of your tax year beginning in 1980?		
14 Taxes on taxable expenditures (section 4945):		
(a) During the year did you pay, or incur any amount to:		
(1) Carry on propaganda, or otherwise attempt to influence legislation by attempting to affect the opinion of the general public or any segment thereof, or by communicating with any member or employee of a legislative body, or by communicating with any other government official or employee who may participate in the formulation of legislation?		
(2) Influence the outcome of any specific public election, or to carry on, directly or indirectly, any voter registration drive?		
(3) Provide a grant to an individual for travel, study, or other similar purposes?		
(4) Provide a grant to an organization, other than a charitable, etc., organization described in paragraph (1), (2), or (3) of section 509(a)?		
(5) Provide for any purpose other than religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals?		
(b) If you answered "Yes" to any of questions (a)(1) through (a)(5), were all such transactions excepted transactions as described in the instructions?		
(c) If you answered "Yes" to question 14(a)(4), do you claim exemption from the tax because you maintained expenditure responsibility for the grant (as explained in item (12) of the instructions for line 14)? *If "Yes," attach the statement required.*		

Part VI Statement Regarding Contributors, Compensation, etc.

1 Persons who became substantial contributors in 1980 (if more space is needed, attach schedule):

Name	Address

2 Officers, directors, trustees, foundation managers and their compensation, if any, for 1980:

Name and address	Title, and time devoted to position	Contributions to employee benefit plans	Expense account, other allowances	Compensation
Total				

3 Compensation of five highest paid employees for 1980 (other than included in 2 above—see instructions):

Name and address of employees paid more than $30,000	Title, and time devoted to position	Contributions to employee benefit plans	Expense account, other allowances	Compensation
Total number of other employees paid over $30,000	20			

Part VI Statement Regarding Contributors, Compensation, etc. (continued)

4 Five highest paid persons for professional services for 1980 (see Instructions):

Name and address of persons paid more than $30,000	Type of service	Compensation

Total number of others receiving over $30,000 for professional services ▶

Part VII Capital Gains and Losses for Tax on Investment Income

a. Kind of property. Indicate security, real estate, or other (specify)	b. Description (examples: 100 sh. of "Z" Co., 2 story brick, etc.)	c. How acquired P—Purchase D—Donation	d. Date acquired (mo., day, yr.)	e. Date sold (mo., day, yr.)

f. Gross sales price minus expense of sale	g. Depreciation allowed (or allowable)	h. Cost or other basis	i. Gain or (loss) (f plus g minus h)

Complete only for assets showing gain in column i and owned by the foundation on 12/31/69

j. F.M.V. as of 12/31/69	k. Adjusted basis as of 12/31/69	l. Excess of col. j over col. k, if any	m. Losses (from col. i) Gains (excess of col. i gain over col l, but not less than zero)

Capital gain net income or (net capital loss) . { If gain, also enter in Part I, line 8 / If (loss) enter -0- in Part I, line 8 } . . .

Net short-term capital gain (loss) as defined in section 1222(5) and (6)
If gain, also enter in Part I, column (C), line 9 (see instructions for line 9) } . . . .
If loss, enter -0- in Part I, column (C), line 9

313-067 52-0237640

ATTACHMENT I

Part VIII Minimum Investment Return for 1980 (Operating Foundations—See instructions)

1 Fair market value of assets not used (or held for use) directly in carrying out exempt purposes:	
(a) Average monthly fair market value of securities	
(b) Average of monthly cash balances	
(c) Fair market value of all other assets (see instructions)	
(d) Total (add lines (a), (b), and (c))	
2 Acquisition indebtedness applicable to line 1 assets	
3 Line 1(d) minus line 2	
4 Cash deemed held for charitable activities—enter 1½% of line 3 (for greater amount, see instructions)	
5 Line 3 minus line 4	
6 Enter 5% of line 5	

Part IX Computation of Distributable Amount for 1980 (See instructions—not applicable to operating foundations)

1 Adjusted net income from Part I, line 25(c)		
2 Minimum investment return from Part VIII, line 6		
3 Enter the larger of line 1 or line 2		
4 Total of:		
(a) Tax on investment income for 1980 from Part II, line 1		
(b) Income tax on unrelated business income for 1980 (Form 990-T)		
5 Distributable amount (line 3 minus line 4)		
6 Adjustments to distributable amount (see instructions)		
7 Distributable amount as adjusted (line 5 plus or minus line 6)—also enter in Part XI, line 1		

Part X Qualifying Distributions in 1980 (See instructions)

1 Amounts paid (including administrative expenses) to accomplish charitable purposes:	
(a) Expenses, contributions, gifts, etc.—total from Part I, column (D), line 24	
(b) Program-related investments (see instructions)	
2 Amounts paid to acquire assets used (or held for use) directly in carrying out charitable, etc., purposes	
3 Amounts set aside for specific projects which are for charitable purposes	
4 Total qualifying distributions made in 1980 (add lines 1, 2, and 3)—also enter in Part XI, line 4	

ATTACHMENT I

Part XII Computation of Undistributed Income (See instructions)

	(a) Corpus	(b) Years prior to 1979	(c) 1979	(d) 1980
1 Distributable amount for 1980 from Part IX				
2 Undistributed income, if any, as of the end of 1979:				
(a) Enter amount for 1979				
(b) Total for prior years: .... , ..., ...				
3 Excess distributions carryover, if any, to 1980:				
(a) From 1975				
(b) From 1976				
(c) From 1977				
(d) From 1978				
(e) From 1979				
(f) Total of 3(a) through (e)				
4 Qualifying distributions for 1980 ( )				
(a) Applied to 1979, but not more than line 2(a)			( )	
(b) Applied to undistributed income of prior years (Election required)		( )		
(c) Treated as distributions out of corpus (Election required)				
(d) Applied to 1980 distributable amount				( )
(e) Remaining amount distributed out of corpus				
5 Excess distributions carryover applied to 1980 (If an amount appears in column (d), the same amount must be shown in column (a))	( )			( )
6 Enter the net total of each column as indicated below:				
(a) Corpus. Add lines 3(f), 4(c), and 4(e). Subtract line 5				
(b) Prior years undistributed income. Line 2(b) minus line 4(b). This amount is taxable—File Form 4720				
(c) Undistributed income for 1979. Line 2(a) minus line 4(a). This amount is taxable—File Form 4720				
(d) Undistributed income for 1980. Line 1 minus lines 4(d) and 5. This amount must be distributed in 1981				
7 Amounts treated as distributions out of corpus to satisfy requirements imposed by sections 170(b)(1)(D) or 4942(g)(3) (see instructions)	( )			
8 Excess distributions carryover from 1975 not applied on line 5 or line 7 (see instructions)	( )			
9 Excess distributions carryover to 1981. (Line 6(a) minus lines 7 and 8.)				
10 Analysis of line 9:				
(a) Excess from 1976				
(b) Excess from 1977				
(c) Excess from 1978				
(d) Excess from 1979				
(e) Excess from 1980				

Part XIII Private Operating Foundations (See instructions and Part V, Question 9)

1 (a) If the foundation has received a ruling or determination letter that it is an operating foundation, and the ruling is effective for 1980, enter the date of the ruling . . . . . . ▶

(b) Check box to indicate whether you are an operating foundation described in section ☐ 4942(j)(3) or ☐ 4942(j)(6) (see instructions).

	Tax year (a) 1980	Prior Three Years (b) 1979	(c) 1978	(d) 1977	(e) Total
2 (a) Adjusted net income (from Part I, line 25(c) for 1980. Enter corresponding amount for prior years)					
(b) 85% of line (a)					
(c) Qualifying distributions from Part X, line 4 for 1980 (enter corresponding amount for prior years)					
(d) Amounts included in (c) not used directly for active conduct of exempt activities					
(e) Qualifying distributions made directly for active conduct of exempt purposes (line (c) minus line (d))					
3 Complete the alternative test in (a), (b), or (c) on which the organization relies:					
(a) "Assets" alternative test—enter: (1) Value of all assets					
(2) Value of assets qualifying under section 4942(j)(3)(B)(i)					
(b) "Endowment" alternative test—Enter ⅔ of minimum investment return shown in Part VIII, line 6 for 1980 (enter ⅔ of comparable amount for prior years)					
(c) "Support" alternative test—enter: (1) Total support other than gross investment income (interest, dividends, rents, payments on securities loans (section 512(a)(5)), or royalties)					
(2) Support from general public and 5 or more exempt organizations as provided in section 4942(j)(3)(B)(iii)					
(3) Largest amount of support from an exempt organization (see instructions)					
(4) Gross investment income					

★ U.S. GOVERNMENT PRINTING OFFICE: 1980—313-057 52-0237640

ATTACHMENT II

Form 990–AR

1980
Annual Report
of Private Foundation

Name

Under Section 6056 of the Internal Revenue Code

This Annual Report and the annual return of the foundation filed on Form 990–PF are available for public inspection. Consult an Internal Revenue Service office for further information.

Department of the Treasury
Internal Revenue Service

ATTACHMENT II   ATTACHMENT II

Annual report for calendar year 1980, or fiscal year beginning , 1980, and ending , 19

Name of organization	Employer identification number
Address of principal office	
If books and records are not at above address, specify where they are kept	Name of principal officer of foundation

Public inspection (see instruction C):

(a) Enter date the notice of availability of annual report appeared in newspaper ▶ ....

(b) Enter name of newspaper ▶ ....

(c) Check here ▶ ☐ if you have attached a copy of the newspaper notice as required by instruction C. (If the notice is not attached, the report will be considered incomplete.)

Check box for type of annual return ▶ ☐ Form 990–PF ☐ Form 5227 | Check this box if your private foundation status terminated under section 507(b)(1)(A) ▶ ☐

Revenues

1 Amount of gifts, grants, bequests, and contributions received for the year . . . .

2 Gross income for the year . . . .

3 Total . . . .

Disbursements and Expenses

4 Disbursements for the year for exempt (charitable) purposes (including administrative expenses) . . . .

5 Expenses attributable to gross income (item 2 above) for the year . . . .

Foundation Managers

6 List all managers of the foundation (see section 4946(b)):

Name and title	Address where manager may be contacted during normal business hours

6a List here any managers of the foundation who have contributed more than 2% of the total contributions received by the foundation before the close of any tax year (but only if they have contributed more than $5,000). (See section 507(d)(2).)

6b List here any managers of the foundation who own 10% or more of the stock of a corporation (or an equally large portion of the ownership of a partnership or other entity) of which the foundation has a 10% or greater interest.

ATTACHMENT II

Balance Sheet Per Books at the Beginning of the Year

Assets			Liabilities	
Cash			Accounts payable	
Accounts and notes receivable			Contributions, gifts, grants, etc., payable	
Inventories			Bonds and notes payable	
Securities:			Mortgages payable	
Government obligations				
			Other liabilities	
Corporate bonds				
			Total liabilities	
Corporate stocks				
			Net Worth	
Mortgage loans			Principal fund	
Real estate				
Less: Depreciation			Income fund	
Other assets				
Less: Depreciation			Total net worth	
Total assets			Total liabilities and net worth	

Itemized Statement of Securities and All Other Assets Held at the Close of the Tax Year

Asset	Book value	Market value
Total		

Grants and Contributions Paid During the Year or Approved for Future Payment

Recipient — Name and address (home or business)	If recipient is an individual, show any relationship to any foundation manager or substantial contributor	Concise statement of purpose of grant or contribution	Amount
Paid during year			
Total . . . . . . ▶			
Approved for future payment			
Total . . . . . . ▶			

A notice has been published that this Annual Report is available for public inspection at the principal offices of the foundation, and copies of this Annual Report have been furnished to the Attorney General (or his/her designate) of each State entitled to receive reports as required by instruction E.

▶ Signature of foundation manager Date ▶ Preparer's signature

▶ Title ▶ Preparer's address

Instructions

A. Who Must File.—An annual report is required from the foundation managers (as defined in section 4946(b)) of every organization that is a private foundation, including a nonexempt charitable trust described in section 4947(a)(1) that is treated as a private foundation, and that has at least $5,000 of assets at any time during a tax year. A private foundation may file this form as its annual report.

Foundation managers who prefer not to use this form may prepare the report in printed, typewritten, or other form as long as it readily and legibly discloses the information required by section 6056 and the related regulations.

The annual report is required in addition to, and not in place of, the information required on Form 990-PF under section 6033.

B. Where and When to File.—File the annual report by the due date of the organization's annual information return, Form 990-PF or Form 5227, with the same service center where the return is filed. See the instructions for Form 990-PF and Form 5227 for more information.

C. Public Inspection of Private Foundation's Annual Report.—Foundation managers must make the annual report available for inspection during regular business hours at the principal office of the foundation, or may furnish a free copy to any person requesting inspection, provided the request is made at the time and in the manner prescribed in section 6104(d) and the related regulations.

A notice that the private foundation's annual report is available for inspection must be published by the due date for filing the annual report, including any extensions of time for filing. The notice must be published in a newspaper with general circulation in the county in which the principal office of the private foundation is located. (A newspaper or journal that publishes real estate title transfers or other similar legal notices to satisfy State statutory requirements is also considered to have general circulation.) The notice must state that the annual report of the private foundation is available for inspection at its principal office during regular business hours by any citizen who requests inspection within 180 days after the date the notice is published. It must also show the address of the private foundation's principal office and the name of its principal manager. A private foundation may designate, in addition to its principal office, any other location at which its annual report will be made available. Another location may also be designated if the foundation has no principal office, or none other than the residence of a substantial contributor or foundation manager.

A copy of the notice must be attached to the annual report filed with the Internal Revenue Service. Because IRS makes the annual report available for public inspection under section 6104(d), the report and any attachments should be of such quality that they can be reproduced photographically.

A private foundation that has terminated its status as such under section 507(b)(1)(A), by distributing all its net assets to one or more public charities without retaining any right, title, or interest in those assets, should check the box on page 2 indicating termination. It does not have to publish notice of availability of its annual report or furnish the report to the public for the tax year in which it terminates (Reg. 1.507-2(a)(6)).

D. Signature and Verification.—The report must be signed by the foundation manager.

E. Furnishing of Copies to State Officers; Listing of States.—Section 6056 requires foundation managers to furnish a copy of the annual report to the Attorney General (or his or her designate) of (1) each State required to be listed in Part V of Form 990-PF or Part III of Form 5227, (2) the State in which the principal office of the foundation is located, (3) the State in which the foundation was incorporated or organized, and (4) any other State if requested. The report must be furnished at the same time it is sent to IRS. The foundation manager must attach to the report a copy of the Form 990-PF (or Form 5227) and a copy of any Form 4720 filed by the foundation with IRS for the year.

F. Penalty for Not Filing the Annual Report and Notice on Time.—If a private foundation does not file the annual report by the due date or does not comply with the requirements under instruction C, the person required to file will be charged a $10 penalty under section 6652 for each day the report and notice are late, up to a maximum of $5,000. If more than one person is required to file, all such persons will be jointly and separately liable for the penalty.

The penalty of $10 a day may also be charged if a report is filed with information omitted. An entry should be made in each part of the form. If a part or line item does not apply, "N/A" (not applicable) should be entered in that space. (See Rev. Rul. 77-162, 1977-1 C.B. 400, for details.)

If the failure to file the annual report or comply with instruction C is willful, a penalty of $1,000 for each such report or notice will be charged in addition to the above amount. (See section 6685.)

Organizations that have given notice under section 508(b) regarding their foundation status and have not received a determination letter from IRS on their status should refer to Rev. Proc. 79-8, 1979-1 C.B. 487, or later revisions for rules relating to relief from the penalty provision of section 6652.

G. Foreign Organizations.—A foreign organization which received substantially all of its support (other than gross investment income) from sources outside the United States will not be subject to the requirements of instructions C and E above.

U.S. GOVERNMENT PRINTING OFFICE : 1980—O—313—084 E.I. #52-1074467

ATTACHMENT III ATTACHMENT III

Form **990-PF**

Department of the Treasury
Internal Revenue Service

Return of Private Foundation

or Section 4947(a)(1) Trust Treated as a Private Foundation

Note: You may be able to use a copy of this return to satisfy State reporting requirements.

OMB No. 1545-0052

1981

For the calendar year 1981, or tax year beginning , 1981, and ending , 19

Please type, print, or attach label. See Specific Instructions	Name of organization	Employer identification number
	Address (number and street)	State registration number (see instructions)
	City or town, State, and ZIP code	If the foundation is in a 60-month termination under section 507(b)(1)(B) check here . ▶ ☐

If address changed, check here ▶ ☐ Foreign organizations, check here ▶ ☐

Fair market value of assets at end of year

Check type of organization
☐ Exempt private foundation ☐ 4947(a)(1) trust ☐ Other taxable private foundation
Check this box if your private foundation status terminated under section 507(b)(1)(A) ▶ ☐

Section 4947(a)(1) trusts filing this form in lieu of Form 1041, check here and see general instructions . . . . ▶ ☐

The books are in care of ▶
Located at ▶ Telephone no. ▶

Part I Analysis of Revenue and Expenses (See instructions for Part I)

		(A) Revenue and expenses per books	(B) Computation of net investment income	(C) Computation of adjusted net income	(D) Disbursements for charitable purpose
Revenue	1 Contributions, gifts, grants, etc. (attach schedule)				
	2 Contributions from split-interest trusts . . .				
	3 Membership dues and assessments				
	4 Interest on savings and temporary cash investments . .				
	5 Dividends and interest from securities				
	6 Gross rents				
	7 Net gain or (loss) from sale of assets not on line 11 . . .				
	8 Capital gain net income				
	9 Net short-term capital gain				
	10 Income modifications				
	11 Gross profit from any business activities: (Gross receipts ▶ $.......... minus cost of sales ▶ $..........)				
	12 Other income (attach schedule)				
	13 Total—add lines 1 through 12				
Expenses	14 Compensation of officers, etc.				
	15 Other salaries and wages				
	16 (a) Pension plan contributions				
	(b) Other employee benefits				
	17 Investment, legal, and other professional services				
	18 Interest				
	19 Taxes (attach schedule)				
	20 Depreciation, amortization, and depletion . . .				
	21 Occupancy				
	22 Other expenses (attach schedule)				
	23 Contributions, gifts, grants (from Part XIII) . .				
	24 Total—add lines 14 through 23				
	25 (a) Excess of revenue over expenses: Line 13 minus line 24 . .				
	(b) Net investment income (if negative, enter -0-) . .				
	(c) Adjusted net income (if negative, enter -0-)				

Part II Excise Tax On Investment Income (Section 4940(a), 4940(b), or 4948—See Instructions)

1 Domestic organizations enter 2% of line 25(b). Exempt foreign organizations enter 4% of line 25(b)		
2 Tax under section 511 (exempt foundations and exempt foreign organizations enter -0-)		
3 Add lines 1 and 2		
4 Tax under subtitle A (exempt foundations and exempt foreign organizations enter -0-)		
5 Tax on investment income (line 3 minus line 4 (but not less than -0-))		
6 Credits: (a) Exempt foreign organizations—tax withheld at source		
(b) Tax paid with application for extension of time to file (Form 2758)		
7 Tax due (line 5 minus line 6) . Pay in full with return. Make check or money order payable to Internal Revenue Service (Write employer identification number on check or money order) ▶		
8 Overpayment—(line 6 minus line 5)		

For Paperwork Reduction Act Notice, see page 1 of the instructions.

 ATTACHMENT III

Part III Balance Sheets

Any required schedules should be for end of year amounts only.

		(A) Beginning of year	(B) End of year
Assets	1 Cash—non-interest bearing		
	2 Savings and temporary cash investments		
	3 Accounts receivable ▶ minus allowance for doubtful accounts ▶		
	4 Pledges receivable ▶ minus allowance for doubtful accounts ▶		
	5 Grants receivable		
	6 Receivables due from officers, directors, trustees, and other disqualified persons (see instructions)		
	7 Other notes and loans receivable ▶ minus allowance for doubtful accounts ▶		
	8 Inventories for sale or use		
	9 Prepaid expenses and deferred charges		
	10 Investments—securities (attach schedule)		
	11 Investments—land, buildings, and equipment: basis ▶ minus accumulated depreciation ▶ (attach schedule)		
	12 Investments—mortgage loans		
	13 Investments—other (attach schedule)		
	14 Land, buildings, and equipment: basis ▶ minus accumulated depreciation ▶ (attach schedule)		
	15 Other assets:		
	16 Total assets (add lines 1 through 15)		
Liabilities	17 Accounts payable and accrued expenses		
	18 Grants payable		
	19 Support and revenue designated for future periods (attach schedule)		
	20 Loans from officers, directors, trustees, and other disqualified persons		
	21 Mortgages and other notes payable (attach schedule)		
	22 Other liabilities:		
	23 Total liabilities (add lines 17 through 22)		
Fund Balances or Net Worth	Organizations that use fund accounting, check here ▶ ☐ and complete lines 24 through 27 and lines 31 and 32.		
	24 (a) Current unrestricted fund		
	(b) Current restricted funds		
	25 Land, buildings, and equipment fund		
	26 Endowment fund		
	27 Other funds (Describe ▶)		
	Organizations not using fund accounting, check here ▶ ☐ and complete lines 28–32.		
	28 Capital stock or trust principal		
	29 Paid-in or capital surplus		
	30 Retained earnings or accumulated income		
	31 Total fund balances or net worth (see instructions)		
	32 Total liabilities and fund balances/net worth (see instructions)		

Part IV Analysis of Changes in Net Worth or Fund Balances

1 Total net worth or fund balances at beginning of year—Part III, Column A, line 31	
2 Enter amount from Part I, line 25(a)	
3 Other increases not included in line 2 (itemize) ▶	
4 Add lines 1, 2, and 3	
5 Decreases not included in line 2 (itemize) ▶	
6 Total net worth or fund balances at end of year (line 4 minus line 5)—Part III, Column B, line 31	

Part V Statements Regarding Activities

File Form 4720 if you answer "No" to question 10(b), 11(b), or 14(b) or "Yes" to question 10(c), 12(b), 13(a), or 13(b).	Yes	No
1 (a) During the tax year, did you attempt to influence any national, State, or local legislation?		
(b) During the year did you participate or intervene in any political campaign?		
(c) Did you spend more than $100 during the year (either directly or indirectly) for political purposes (see instructions for definition)?		
If you answered "Yes" to 1(a), (b), or (c), attach a detailed description of the activities and copies of any materials published or distributed by the organization in connection with the activities.		
(d) Did you file Form 1120-POL?		

Part V Statements Regarding Activities (continued)

	Yes	No
2 Have you engaged in any activities which have not previously been reported to the Internal Revenue Service? *If "Yes," attach a detailed description of the activities.*		
3 Have you made any changes, not previously reported to the IRS, in your governing instrument, articles of incorporation, or bylaws, or other similar instruments? *If "Yes," attach a conformed copy of the changes.*		
4 (a) Did you have unrelated business gross income of $1,000 or more during the year?		
(b) If "Yes," have you filed a tax return on Form 990-T for this year?		
5 Was there a liquidation, termination, dissolution, or substantial contraction during the year? *If "Yes," attach a schedule for each asset disposed of showing: the type of asset, the date of disposition, its cost or other basis, its fair market value on date of disposition, and the name and address of each recipient to whom assets were distributed.*		
6 Did you have at least $5,000 in assets at any time during the year? If "Yes," complete Parts XIII and XIV.		
7 Are the requirements of section 508(e) (relating to governing instruments) satisfied? (See instructions) *If "Yes," are the requirements satisfied by:*		
(a) Language in the governing instrument (original or as amended), or		
(b) Enactment of State legislation that effectively amends the governing instrument with no mandatory directions in the governing instrument that conflict with the State law?		
8 (a) Enter States to which the foundation reports or with which it is registered (see instructions) ▶		
(b) If you answered 6(a) "Yes," have you furnished a copy of Form 990-PF to the Attorney General (or his or her designate) of each State as required by General Instruction K.1? If "No," attach explanation.		
9 Are you claiming status as an operating foundation within the meaning of sections 4942(j)(3) or 4942(j)(5) for calendar year 1981 or fiscal year beginning in 1981 (see instructions for Part XII)? *If "Yes," complete Part XII.*		
10 Self-dealing (section 4941): (a) During the year did you (either directly or indirectly):		
(1) Engage in the sale, or exchange, or leasing of property with a disqualified person?		
(2) Borrow money from, lend money to, or otherwise extend credit to (or accept it from) a disqualified person?		
(3) Furnish goods, services, or facilities to (or accept them from) a disqualified person?		
(4) Pay compensation to or pay or reimburse the expenses of a disqualified person?		
(5) Transfer any of your income or assets to a disqualified person (or make any of either available for the benefit or use of a disqualified person)?		
(6) Agree to pay money or property to a government official? (Exception: check "No" if you agreed to make a grant to or to employ the official for a period after he or she terminates government service if he or she is terminating within 90 days.)		
(b) If you answered "Yes" to any of the questions 10(a)(1) through (6), were the acts you engaged in excepted acts as described in regulations section 53.4941(d)-3 and 4?		
(c) Did you engage in a prior year in any of the acts described in 10(a), other than excepted acts, that were acts of self-dealing that were not corrected by the first day of your tax year beginning in 1981?		
11 Taxes on failure to distribute income (section 4942) (does not apply for years you were an operating foundation as defined in section 4942(j)(3) or 4942(j)(5)):		
(a) Did you at the end of tax year 1981 have any undistributed income (lines 6(b) and (c), Part XI) for tax year(s) beginning before 1981? If "Yes," list the years ▶		
(b) If "Yes," to (a) above, are you applying the provisions of section 4942(a)(2) (relating to incorrect valuation of assets) to the undistributed income for ALL such years?		
(c) If the provisions of section 4942(a)(2) are being applied to ANY of the years listed in (a) above, list the years here and see the instructions ▶		
12 Taxes on excess business holdings (section 4943):		
(a) Did you hold more than 2% direct or indirect interest in any business enterprise at any time during the year?		
(b) If "Yes," did you have excess business holdings in 1981 as a result of any purchase by you or disqualified persons after May 26, 1969; after the lapse of the 5-year period to dispose of holdings acquired by gift or bequest; or after the lapse of the 10-year first phase holding period?		
Note: *You may use Schedule C, Form 4720, to determine if you had excess business holdings in 1981.*		
13 Taxes on investments which jeopardize charitable purposes (section 4944):		
(a) Did you invest during the year any amount in a manner that would jeopardize the carrying out of any of your charitable purposes?		
(b) Did you make any investment in a prior year (but after December 31, 1969) that could jeopardize your charitable purpose that you had not removed from jeopardy on the first day of your tax year beginning in 1981?		

Part V Statements Regarding Activities (continued)

	Yes	No
14 Taxes on taxable expenditures (section 4945):		
(a) During the year did you pay or incur any amount to:		
(1) Carry on propaganda, or otherwise attempt to influence legislation by attempting to affect the opinion of the general public or any segment thereof, or by communicating with any member or employee of a legislative body, or by communicating with any other government official or employee who may participate in the formulation of legislation?		
(2) Influence the outcome of any specific public election, or to carry on, directly or indirectly, any voter registration drive?		
(3) Provide a grant to an individual for travel, study, or other similar purposes?		
(4) Provide a grant to an organization, other than a charitable, etc., organization described in paragraph (1), (2), or (3) of section 509(a)?		
(5) Provide for any purpose other than religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals?		
(b) If you answered "Yes" to any of questions (a)(1) through (a)(5), were all such transactions excepted transactions as described in regulations section 53.4945?		
(c) If you answered "Yes" to question 14(a)(4), do you claim exemption from the tax because you maintained expenditure responsibility for the grant?		
If "Yes," attach the statement required.		
15 Did any persons become substantial contributors during the tax year?		
If "Yes," attach a schedule listing their names and addresses.		

Part VI Statement Regarding Officers, Compensation, etc.

1 Officers, directors, trustees, foundation managers and their compensation, if any, for 1981:

Name and address	Title, and average hours per week devoted to position	Contributions to employee benefit plans	Expense account, other allowances	Compensation
Total				

2 Compensation of five highest paid employees for 1981 (other than included in 1 above—see instructions):

Name and address of employees paid more than $30,000	Title, and time devoted to position	Contributions to employee benefit plans	Expense account, other allowances	Compensation
Total number of other employees paid over $30,000				

3 Five highest paid persons for professional services for 1981 (see instructions):

Name and address of persons paid more than $30,000	Type of service	Compensation
Total number of others receiving over $30,000 for professional services		

ATTACHMENT III

Part VII Capital Gains and Losses for Tax on Investment Income

	a. Kind of property. Indicate security, real estate, or other (specify)	b. Description (examples: 100 sh. of "Z" Co., 2 story brick, etc.)	c. How acquired P—Purchase D—Donation	d. Date acquired (mo., day, yr.)	e. Date sold (mo., day, yr.)
1					

f. Gross sales price minus expense of sale	g. Depreciation allowed (or allowable)	h. Cost or other basis	i. Gain or (loss) (f plus g minus h)

Complete only for assets showing gain in column i and owned by the foundation on 12/31/69			m. Losses (from col. i) Gains (excess of col. i gain over col. l, but not less than zero)
j. F.M.V. as of 12/31/69	k. Adjusted basis as of 12/31/69	l. Excess of col. j over col. k, if any	

2 Capital gain net income or (net capital loss) . { If gain, also enter in Part I, line 8 / If (loss) enter –0– in Part I, line 8 } . . .

3 Net short-term capital gain (loss) as defined in section 1222(5) and (6)
{ If gain, also enter in Part I, column (C), line 9 (see instructions for line 9) / If loss, enter –0– in Part I, column (C), line 9 } . . . .

Part VIII Minimum Investment Return for 1981

1 Fair market value of assets not used (or held for use) directly in carrying out charitable, etc., purposes:
(a) Average monthly fair market value of securities . . . .
(b) Average of monthly cash balances . . . .
(c) Fair market value of all other assets (see instructions) . . . .
(d) Total (add lines (a), (b), and (c)) . . . .
2 Acquisition indebtedness applicable to line 1 assets . . . .
3 Line 1(d) minus line 2 . . . .
4 Cash deemed held for charitable activities—enter 1½% of line 3 (for greater amount, see instructions) . .
5 Line 3 minus line 4 . . . .
6 Enter 5% of line 5 . . . .

Part IX: Computation of Distributable Amount for 1981 (See instructions)

1 Adjusted net income from Part I, line 25(c) . . . .
2 Minimum investment return from Part VIII, line 6 . . . .
3 Enter the larger of line 1 or line 2 . . . .
4 Total of:
(a) Tax on investment income for 1981 from Part II, line 5 . . . .
(b) Income tax under this subtitle A, for 1981 . . . .
5 Distributable amount (line 3 minus line 4) . . . .
6 Adjustments to distributable amount . . . .
7 Distributable amount as adjusted (line 5 plus or minus line 6)—also enter in Part XI, line 1 . . . . . .

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Part X Qualifying Distributions in 1981 (See instructions)

1 Amounts paid (including administrative expenses) to accomplish charitable, etc., purposes:	
(a) Expenses, contributions, gifts, etc.—total from Part I, column D, line 24	
(b) Program-related investments	
2 Amounts paid to acquire assets used (or held for use) directly in carrying out charitable, etc., purposes	
3 Amounts set aside for specific charitable projects that satisfy the:	
(a) Suitability test (prior IRS approval required)	
(b) Cash distribution test (attach the required schedule)	
4 Total qualifying distributions made in 1981 (add lines 1, 2, and 3)—also enter in Part XI, line 4	

Part XI Computation of Undistributed Income (See instructions)

	(a) Corpus	(b) Years prior to 1980	(c) 1980	(d) 1981
1 Distributable amount for 1981 from Part IX				
2 Undistributed income, if any, as of the end of 1980				
(a) Enter amount for 1980				
(b) Total for prior years: ______, ______, ______				
3 Excess distributions carryover, if any, to 1981:				
(a) From 1976 ______				
(b) From 1977 ______				
(c) From 1978 ______				
(d) From 1979 ______				
(e) From 1980 ______				
(f) Total of 3(a) through (e)				
4 Qualifying distributions for 1981 (______)				
(a) Applied to 1980, but not more than line 2(a)			( )	
(b) Applied to undistributed income of prior years (Election required)		( )		
(c) Treated as distributions out of corpus (Election required)				
(d) Applied to 1981 distributable amount				( )
(e) Remaining amount distributed out of corpus				
5 Excess distributions carryover applied to 1981 (If an amount appears in column (d), the same amount must be shown in column (a))	( )			( )
6 Enter the net total of each column as indicated below:				
(a) Corpus. Add lines 3(f), 4(c), and 4(e). Subtract line 5				
(b) Prior years' undistributed income. Line 2(b) minus line 4(b)		(b)		
(c) Enter the amount of prior year's undistributed income for which a notice of deficiency has been issued, or on which the section 4942(a) tax has been previously assessed		(c)		
(d) Subtract line 6(c) from line 6(b). This amount is taxable—File Form 4720		(d)		
(e) Undistributed income for 1980. Line 2(a) minus line 4(a). This amount is taxable—File Form 4720				
(f) Undistributed income for 1981. Line 1 minus lines 4(d) and 5. This amount must be distributed in 1982				
7 Amounts treated as distributions out of corpus to satisfy requirements imposed by section 170(b)(1)(D) or 4942(g)(3) (see instructions)	( )			
8 Excess distributions carryover from 1976 not applied on line 5 or line 7 (see instructions)	( )			
9 Excess distributions carryover to 1982. (Line 6(a) minus lines 7 and 8.)				
10 Analysis of line 9:				
(a) Excess from 1977 ______				
(b) Excess from 1978 ______				
(c) Excess from 1979 ______				
(d) Excess from 1980 ______				
(e) Excess from 1981 ______				

ATTACHMENT III

Part XII Private Operating Foundations (See instructions and Part V, Question 9)

1 (a) If the foundation has received a ruling or determination letter that it is an operating foundation, and the ruling is effective for 1981, enter the date of the ruling . . . . ▶

(b) Check box to indicate whether you are an operating foundation described in section ☐ 4942(j)(3) or ☐ 4942(j)(5).

	Tax year (a) 1981	Prior 3 Years (b) 1980	(c) 1979	(d) 1978	(e) Total
2 (a) Adjusted net income from Part I, line 25(c), for 1981 (enter corresponding amount for prior years)					
(b) 85% of line (a)					
(c) Qualifying distributions from Part X, line 4, for 1981 (enter corresponding amount for prior years)					
(d) Amounts included in (c) not used directly for active conduct of exempt activities					
(e) Qualifying distributions made directly for active conduct of exempt purposes (line (c) minus line (d))					
3 Complete the alternative test in (a), (b), or (c) on which you rely:					
(a) "Assets" alternative test—enter: (1) Value of all assets					
(2) Value of assets qualifying under section 4942(j)(3)(B)(i)					
(b) "Endowment" alternative test—Enter ⅔ of minimum investment return shown in Part VIII, line 6, for 1981 (enter ⅔ of comparable amount for prior years)					
(c) "Support" alternative test—enter: (1) Total support other than gross investment income (interest, dividends, rents, payments on securities loans (section 512(a)(5)), or royalties)					
(2) Support from general public and 5 or more exempt organizations as provided in section 4942(j)(3)(B)(iii)					
(3) Largest amount of support from an exempt organization					
(4) Gross investment income					

Part XIII Supplementary Information (see instructions)

1 Statements regarding foundation managers

(a) List here any managers of the foundation who have contributed more than 2% of the total contributions received by the foundation before the close of any tax year (but only if they have contributed more than $5,000). (See section 507(d)(2).)

(b) List here any managers of the foundation who own 10% or more of the stock of a corporation (or an equally large portion of the ownership of a partnership or other entity) of which the foundation has a 10% or greater interest.

2 If you directly carry on any significant program service activity other than grant making as described in line 3, attach a statement describing each activity. Include relevant statistical information, such as the number of clients, patients, students, visitors, or members served.

 ATTACHMENT III

Part XIII Supplementary Information (continued)

3 If you award grants, scholarships, fellowships, loans, prizes or similar benefits, attach a statement giving: (a) the name, address, and telephone number of the person to whom applications should be addressed; (b) the form in which applications should be submitted and information and materials they should include; (c) any submission deadlines; and (d) any restrictions or limitations on awards such as by geographical areas, charitable fields, kinds of institutions, or other factors.

4 Grants and Contributions Paid During the Year or Approved for Future Payment

Recipient — Name and address (home or business)	If recipient is an individual, show any relationship to any foundation manager or substantial contributor	Foundation Status of Recipient	Purpose of grant or contribution	Amount
(a) *Paid during year*				
Total (Enter this amount on line 23, Part I, also.) ▶				
(b) *Approved for future payment*				
Total ▶				

Part XIV Itemized Statement of Securities and All Other Assets Held at the Close of the Tax Year (see instructions)

Asset	Book value	Market value
Total ▶		

Part XV Public Inspection

1 Enter the date the notice of availability of the annual return appeared in a newspaper ▶ ....

2 Enter the name of the newspaper ▶ ....

3 Check here ▶ ☐ if you have attached a copy of the newspaper notice as required by the instructions. (If the notice is not attached, the return will be considered incomplete.)

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than taxpayer or fiduciary) is based on all information of which preparer has any knowledge.

▶ Signature of officer or trustee Date ▶ Title

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's social security no.
Firm's name (or yours, if self-employed) and address ▶		E.I. No. ▶	
		ZIP code ▶	

U.S. GENERAL ACCOUNTING OFFICE

OBJECTIVES, SCOPE, AND METHODOLOGY

FOR REVIEWING IRS' EFFORTS TO OBTAIN COMPLETE

PRIVATE FOUNDATION INFORMATION RETURNS

As requested by the Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations, our objectives were to (1) determine the extent and nature of incomplete foundation returns and (2) evaluate IRS efforts to obtain complete returns.

We conducted our review at the IRS national office, and the Andover, Brookhaven, and Kansas City Service Centers. The 3 service centers accounted for over 40 percent of private foundation returns filed in 1981. Taken together, the rate at which these service centers correspond on incomplete foundation returns approximates the IRS national average.

To accomplish our objectives, we randomly selected 987 of the 14,860 990PF returns and 695 of the 10,930 990AR returns which were processed by the three service centers during 1981 and were on file and available during our review. About 95 percent of the returns included in our sample were for tax years ending in 1978, 1979, 1980, or 1981. Also, 420 of the sampled returns had been either examined or selected for examination by IRS and were returned to the service centers for processing and storage. In selecting 990AR and 990PF returns we used stratified random sampling techniques which considered the size of the foundation, the presence of IRS correspondence, the segmentation of IRS files, and the examination status of the return. Our sampling methodology is discussed in detail in attachment V.

Our sample did not include the new consolidated private foundation return because filing the consolidated return was not required to commence until mid-May 1982--after our review was initiated and after our samples were selected. Moreover, not all foundations would be required to file the return until as late as mid-1983 because the returns are not required to be filed until 5-1/2 months after the closing date of a foundation's fiscal year. Nevertheless, since the consolidated return includes the previously separate 990AR and 990PF return reporting requirements and because IRS has made no substantive change in its enforcement activities for private foundations, we believe that the results of our analysis would be similar to results obtained from analysis of consolidated return filings.

To understand the purposes of and problems associated with private foundation reporting, we reviewed

--applicable sections of the Internal Revenue Code and the legislative history for those sections;

--IRS implementing regulations and procedures;

--IRS studies concerning incomplete returns; and

--IRS data on the costs for followup correspondence for private foundation returns.

We also held discussions with officials of the Council on Foundations--a nonprofit membership organization representing about 1,000 grant makers nationwide which hold over half of total foundation assets--to discuss foundation reporting practices.

To further understand the need for and use of private foundation return information, we spoke with representatives of national, regional, and local associations of grant makers, grant seekers, and those interested in accountability of private foundations. Specifically, we held meetings with representatives of the following organizations:

--The Foundation Center, a national tax-exempt service organization established to provide information on foundation activities.

--National Committee For Responsive Philanthropy, a tax-exempt national coalition of social action, public interest, and other community based groups.

--Associated Grant Makers Of Massachusetts, a tax-exempt association of foundations and other grant makers in the Boston area.

--Counsel For Advancement And Support Of Education, a tax-exempt national membership organization of colleges, universities, and independent schools.

--United Way Of America, a tax-exempt national membership organization of local United Way agencies.

--Washington Council On Agencies, a tax-exempt local association of nonprofit organizations having a variety of concerns, such as poverty, health care, literacy, and housing.

To gain additional views on foundation reporting practices and the need for and use of private foundation return information, we also spoke with others involved in the grant-making or grant-seeking process. These other groups included the Clearinghouse For Mid Continent Foundations located in Kansas City, Missouri; the New York Regional Association For Philanthropy located in New York, New York; and the Metropolitan Association for Philanthropy located in St. Louis, Missouri. In addition, we met with representatives of the Taft Corporation, a for-profit publisher of foundation information.

This work provided the basis for determining the data to be collected and analyzed from each return in our random sample. The data collected from each return included characteristics of the foundation, results of any IRS correspondence with the foundation, and certain incomplete return information which did not meet IRS criteria for correspondence. Our review did not include all information items required on foundation returns. Rather, we included selected items which, when taken together, provide considerable detailed information on foundation operations needed in meeting the two basic reporting purposes of the returns--tax administration and public oversight and disclosure.

To effectively and efficiently administer the Internal Revenue Code's exemption provisions within budgetary constraints, IRS has identified specific return information items and has instructed its service centers to correspond with foundations if these items are omitted from the foundation returns filed. In essence, this is the minimum amount of information that IRS considers necessary for tax computation and enforcement purposes. Accordingly, we collected and analyzed these information items from each return. Throughout our testimony these items are referred to as tax administration reporting requirements.

To provide public oversight of foundation activities and provide information to grant seekers, the Internal Revenue Code requires substantive reporting on foundation grant making programs, investment holdings, and management. To evaluate whether the returns filed by private foundations facilitate this public oversight, we collected and analyzed information on 19 return items which, when taken together, would provide detailed information on foundation grants, investments, and managers. We selected these 19 return items from 2 sections of the 990AR return and 1 section of the 990PF return. These sections had been reviewed by IRS' Chief Counsel and determined to be required by the code or regulations. In the Chief Counsel's opinion

> "the failure of an exempt organization to provide the information required*** would constitute the omission of material information necessary for the Service to properly administer the revenue laws. The omission of this information would hinder or prevent the Service from being able to perform its Congressionally assigned duties. Thus,

the failure to provide such information should be treated as the filing of an incomplete return***."[1]

Also, these sections of the returns were included in our analyses because they were frequently cited by public interest groups as being needed by the public for grant seeking and oversight purposes. Throughout our testimony these information items are referred to as public information reporting items. The items reviewed are discussed in detail in attachment V.

We did our audit work from September 1981 through November 1982. Our work was performed in accordance with generally accepted Government auditing standards.

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[1] General Counsel Memorandum 38760, Incomplete Returns, EE-145-80 (June 29, 1981).

U.S. GENERAL ACCOUNTING OFFICE ANALYSES OF PRIVATE FOUNDATION RETURNS FOR ADHERENCE TO PUBLIC INFORMATION REPORTING REQUIREMENTS

We selected a stratified random sample of 987 990PF and 695 990AR returns from the returns on file during our review at the Andover, Brookhaven, and Kansas City Service Centers. About 95 percent of the returns sampled were from tax years ending in 1978, 1979, 1980, or 1981 and 420 of the returns sampled had been either examined or selected for examination by IRS. The sample was selected from a total universe of 14,860 990PF and 10,930 990AR returns. The procedures we used to collect and analyze data pertaining to the returns in our sample, the results of that sample, and the procedures used to make projections to the universe of returns at the three service centers are described below.

SAMPLING METHODOLOGY

In drawing our stratified random sample at each location, we considered the arrangement of IRS files, the asset or income size of the foundation, the presence of IRS correspondence, and the examination status of the returns. All members of the audit team were provided a copy of the detailed sampling plan and attended a training session covering implementation of the sampling plan.

To assure that our sample would consider a sufficient number of large foundations, we independently sampled these returns to identify the large foundations. We obtained a computer printout from the IRS on all foundations with $100,000 or more of income or $1,000,000 or more of assets. From this list we identified those foundations normally filing returns at the Brookhaven, Andover, or Kansas City Service Centers, and selected a random sample of these returns which we then located at the service centers. All smaller returns were randomly sampled directly from the service center files.

Also, to assure that our sample would consider any IRS administrative actions to resolve private foundation reporting problems, we stratified our sampling plan to select the following types of returns.

--Those on which IRS had corresponded with the foundations for additional information.

--Those for which IRS had determined that no correspondence was necessary.

--Those which IRS selected for examination but had determined on review of the returns that an examination was not necessary.

--Those which IRS selected for examination and examined.

DATA COLLECTION

We combined information from several sources to develop a data collection instrument and related instruction manual. These sources included the law and legislative history, IRS return instructions, and groups representing foundations and users of foundation information. We then tested the data collection instrument and instruction manual on actual returns and modified them as appropriate. All members of our audit team attended training sessions on the use of the manual and the instrument. Once we started our review, questions relating to either the instrument or the manual were centrally answered and each location was notified by phone or in writing of any further changes. If required, we reevaluated returns already completed in light of the approved modification. GAO staff supervisors or other evaluators reviewed the information recorded on each instrument for completeness.

Our staff members who had overall responsibility for the review visited each location to assure adherence to the sampling plan and that data collection efforts conformed to the manual. When data collection was completed, the information was keypunched. The resulting data base was verified and checked for logic errors using machine and manual edits.

PROJECTION OF SAMPLE RESULTS

To project sample results to all returns on file at the three service centers, we weighted the data. This involved developing individual weights for each of our samples at each of the three locations. Consequently, our projections are subject to some variation. At a confidence level of 95 percent subject to the precision limits cited in explanatory notes to the data, we can project the following sample results pertaining to the 10,930 990AR returns and 14,860 990PF returns filed at the three service centers.

--The extent to which the 990AR returns omitted information on the public information reporting requirements.

--The percentage of 990AR returns which did not report complete information on grants paid during the year.

--The percentage of 990AR returns which did not report complete information on grants approved for future payment.

--The percentage of 990AR returns which did not report complete information on foundation investments.

--The extent to which the 990PF returns omitted information on the public information reporting requirements pertaining to managers.

In addition we performed statistical tests at the 95 percent confidence level to determine the relationship of incomplete public information reporting to private foundation size and IRS' examination selections. Other data presented are expressed as weighted percentages.

DATA ANALYSES

To assess foundation compliance with the information reporting requirements, we distinguished in our analyses among "full," "partial," and "no" information disclosure by private foundations for three categories of public information reporting requirements--foundation grant programs, foundation asset holdings, and foundation managers. These requirements encompassed

19 reporting items on the 990PF and 990AR returns. In analyzing the returns, we adhered to the following procedure:

--If a return itemized all information for a reporting requirement, the return was credited as providing full information for that reporting requirement.

--If the return listed some, but not all, information the return was credited as providing partial information.

--If the return did not list any information for a reporting requirement, the return was credited as providing no information.

While the majority of our analyses were straightforward in that required information was either present or missing, the collection and analysis of certain grant and investment information required some professional judgment. These judgments involved determining whether required grant purpose or asset descriptions were reported with sufficient specificity to fulfill the reporting requirements. However, in the majority of cases reviewed, the grant and investment information was either fully and correctly reported or not provided at all. The following sections describe the criteria we used to make these determinations as well as the results of our analyses.

Analysis of grant information reporting requirements

A foundation's 990AR return should contain extensive information on the foundation's grant-making programs. The Internal Revenue Code requires that private foundations provide

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"an itemized list of all grants and contributions made or approved for future payment during the year, showing the amount of each such grant or contribution, the name and address of the recipient, any relationship between any individual recipient and the foundation's managers or substantial contributors, and a concise statement of the purpose of each such grant or contribution***."

IRS used page 4 of the 990AR return to collect this grant information.

Accordingly, we reviewed our sampled 990AR returns to determine, both for grants made during the year and approved for future payment, if the return

--listed the grants or indicated none;

--itemized grant amounts, where appropriate;

--itemized recipient addresses, where appropriate;

--itemized specific purposes of grants, where appropriate; and

--reported the total amount of grants or indicated none.

The analysis of grant purpose descriptions required certain judgments to determine if the information was reported with sufficient specificity.

Determination of complete grant purpose descriptions

The Internal Revenue Code requires foundations to report a "concise statement of purpose of each such grant or contribution." The legislative history indicates that the Congress intended the itemized statement of grant purpose descriptions to facilitate public oversight of foundation grant-making programs. Thus, the grant information should be specific enough to disclose the appropriateness of grant activities and to provide sufficient information to enable grant seekers to decide whether to apply for grants. The official guidance to foundations for completing a "concise statement" listing is contained in the IRS instruction booklet for completing the 990AR. The booklet provides the following example as to the degree of specificity required. According to IRS officials, the example better depicts the specificity of the information to be reported than could otherwise be described in a text discussion.

Grants and Contributions Paid During the Year or Approved for Future Payment

Recipient: Name and address (home or business)	If recipient is an individual, show any relationship to any foundation manager or substantial contributor	Concise statement of purpose of grant or contribution	Amount
Paid during year Allen Reid Museum of Fine Arts, Atlanta, GA	N/A	Renovating museum	15,000
Moore-Price Clinic, College Park, GA	N/A	To buy equipment	15,000
Ervin Guinn Insts., Stone Mtn., GA	N/A	To buy library materials	10,000
Blue Circle of America, Wash., DC	N/A	Disaster relief	3,000
American Frontier Scouts, Chicago, IL	N/A	To build campground	2,000
Total			45,000

The short, clear, detailed statements of grant purposes in the IRS example are substantially different from those provided by the foundations in our samples. Foundations typically either omitted grant purpose descriptions entirely or listed grants under broad titles which were descriptive of the recipient organization rather than of the purpose of the grant. For example, purpose descriptions such as "charitable," "religious," or "educational," were often cited. Such responses essentially supply no useful information beyond that disclosed by listing the name of the recipient organization, a separate reporting requirement. Another commonly used, but unacceptable, purpose description was "for exempt purposes of the organization." This description also adds no additional information since grants presumably would not be made for nonexempt purposes. Nevertheless, we accepted purposes given as "general purpose" or "unrestricted use." We believed that such descriptions conveyed the message that the grant was given without reservation, to be used as needed by the grantee. The following table summarizes some of the responses we encountered and our decisions to credit them as acceptable or unacceptable responses.

Recipient	Concise statement of grant or contribution	GAO's determination
University X	Education	Not Acceptable
University Y	Scholarship funds	Acceptable
Charity X	Charitable	Not acceptable
Charity Y	General use	Acceptable

Our main concern in evaluating grant information was that it should be specific enough so that IRS, the public, and grant seekers would be provided with useful information for their various purposes. For example, IRS would need information specific enough to identify potential self dealing, distributions not qualifying under the minimum payout provisions, or prohibited expenditures. Grant seekers would want grant descriptions specific enough to determine what types of grants a foundation would be likely to consider. Public oversight groups would want information specific enough to evaluate whether foundation funds are being used for the most effective public purposes. We believe that missing or vague grant descriptions which simply restate the donee organization exempt purpose or which do not include grantee addresses do not fulfill these purposes.

Results of grant information reporting analysis

We found that most foundations do not provide all required grant information. We estimate that about 79 percent of the 10,930 990AR returns filed at the three service centers did not completely report information on grants paid during the year. 1/ Also, about 76 percent did not completely report information on grants approved for future payment. 2/ As shown by the following table, foundations omitted substantially more information on grants approved for future payment than on grants paid during the year.

1/Sampling error is ± 4 percent at the 95 percent confidence level.

2/Sampling error is ± 4 percent at the 95 percent confidence level.

Number of Incomplete Reporting Requirements	Percentage of 990AR Returns(note a) Paid Grant Information	Grants Approved for Future Payment
0	21	24
1	24	3
2	46	1
3	3	10
4	1	1
5	5	60
	100	100

a/ Totals may not add due to rounding.

Whether grants paid during the year or grants approved for future payment were involved, foundations most frequently did not completely report recipients' addresses or specific purposes of the grants. As shown in the table on the next page, with respect to grants paid during the year, we estimate that 62 percent and 54 percent of the 10,930 990AR returns filed at the three service centers did not report any recipient addresses or specific grant purposes, respectively. Another 10 percent and 5 percent respectively, provided only partial information for these two reporting requirements. Moreover, even less information was reported on grants approved for future payment. For example, we estimate that for future grants 60 percent of the returns reported no information for any of the five items.

The omitted information on grants is essential to grant seekers and necessary for assuring public accountability. The 990AR return (and now the new 990PF return) provides grant seekers with the identity of private foundations nationwide which have interests similar to the grant seekers and would thus be most likely to fund the grant seekers' proposals. Often, the

PRIVATE FOUNDATION COMPLIANCE WITH THE REPORTING REQUIREMENTS FOR GRANTS MADE DURING THE YEAR AND GRANTS APPROVED FOR FUTURE PAYMENT

Reporting Requirements Reviewed	Grants Paid During The Year --Percentage of 990AR returns with--				Grants Approved For Future Payment --Percentage of 990AR returns with--			
	Full information	Partial information	No information	Total (note a)	Full information	Partial information	No information	Total (note a)
listed grants paid	93	(b)	7	100	33	(b)	67	100
itemized grant amounts	92	1	7	100	34	1	65	100
itemized recipients' addresses	28	10	62	100	30	c/--	70	100
itemized grant purposes	40	5	54	100	26	c/--	74	100
provided total amount of grants	95	(b)	5	100	36	(b)	64	100
Overall requirements reviewed	21	74	5	100	24	16	60	100

a/ Totals may not add because of rounding.

b/ Not applicable

c/ Represents less than .5 percent.

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return is the only readily available source for this information. Accordingly, the absence of complete information particularly concerning grant purposes or locale in which the grants are made only makes it more difficult for grant seekers to distinguish between foundations that may act favorably on their proposals and those which probably would not. Furthermore, the return information is often the only means for the public and the Congress to monitor private foundation grant making programs. According to one group interested in foundation accountability, the National Committee for Responsive Philanthropy, being accountable and accessible to the public is one way foundations can evaluate their programs and then make better grants.

Analysis of investment
information reporting

Internal Revenue Code section 6056(b)(5) requires that a private foundation provide "an itemized statement of its securities and all other assets at the close of the year, showing both book and market value***." Page 3 of the 990AR return was used to collect this investment information.

Accordingly, we reviewed the 990AR returns filed by private foundations to determine if the returns

--listed securities and other assets,

--itemized security and other asset book values,

--itemized security and other asset market values,

--included the total book value of securities and other assets,

--included the total market value of securities and other assets, and

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--specifically described securities and other assets. The analysis of asset descriptions required certain judgments to determine if the information was reported with sufficient specificity.

Determination of complete asset descriptions

The legislative history indicates that the Congress intended the itemized statement of assets to facilitate public oversight of foundation investment activities and thereby act as a deterrent to abusive self-serving investment practices such as those identified during the late 1960's. The official guidance to foundations for completing an "itemized" listing is contained in the IRS instruction booklet for completing the 990AR. The booklet provides the following example as to the degree of specificity required. According to IRS officials, the example better depicts the specificity of the information to be reported than would narrative in the instruction booklet text.

Itemized Statement of Securities and All Other Assets Held at the Close of the Tax Year

	Book value	Market value
Cash	9,500	9,500
Certificates of deposit	250,000	250,000
100 shares Atlas Corporation	1,000	1,100
500 shares Zeus Corporation	10,000	9,500
300 shares Athena Corporation	6,000	6,000
500 shares Mars Corporation	10,000	9,000
100 shares Jupiter Corporation	30,000	31,000
500 shares Venus Corporation	5,000	5,500
600 shares Saturn Corporation	10,000	11,000
Office equipment	1,650	1,650
Total	333,150	334,250

Foundations should describe their securities and other assets in sufficient detail to fully disclose their holdings to the public. We concluded that descriptions such as "land," "real estate," "stock," "securities," or general account titles such as "interest receivable" are not sufficiently specific. The following table summarizes some of the responses we encountered and our decisions to categorize them as specific or nonspecific descriptions.

Description of security or other asset	GAO's determination
100 shares "A" Corporation	Specific
Stock	Non specific
324 Main Street, Anytown, Illinois	Specific
Real Estate (land)	Non specific
$10,000 "A" Corp. deb. @ 7-5/8% due 2003	Specific
Bonds	Non specific

Results of asset information reporting analysis

We found that private foundations provided more complete information on their asset holdings than on their grant programs. We estimate that 69 percent of the 990AR returns filed at the three service centers fully complied with the six investment reporting requirements we evaluated; while 31 percent did not report complete information. [3] Although, as shown in the following table, compliance with five of the six reporting requirements was quite high, we estimate that about 3,100 of the

[3]Sampling error is within ± 5 percent at the 95 percent confidence level.

10,930 990AR returns (28 percent) did not specifically describe all securities and other assets.

Investment Reporting Requirements Reviewed	Percentage Of 990AR Returns			
	Full Information	Partial Information	No Information	Total (note a)
listed assets and securities	99	(b)	1	100
itemized book values	97	2	2	100
itemized market values	96	2	2	100
provided total book value	98	(b)	2	100
provided total market value	98	(b)	2	100
provided specific descriptions	72	27	1	100
Overall requirements reviewed	69	30	1	100

a/ Totals may not add because of rounding.
b/ Not applicable

Specific asset descriptions are important from a public oversight viewpoint, as well as for IRS to administer tax exemption laws. Foundations hold assets amounting to about $35 billion--an enormous sum of money. As a condition of tax-exempt status, foundations and all other charitable organizations are required to permanently dedicate these assets to public purposes. The public can help ensure that foundation assets are so dedicated only if sufficient information is available. For example, without adequate information on where foundation monies are invested, the Congress and the public would have a difficult time identifying possible conflicts of interest, such as investments which appear to be more beneficial to officers of the foundation than to public purposes. Likewise, it would be dif-

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ficult for IRS to identify such conflicts warranting its attention without conducting detailed examinations of foundations. Similarly, it could be difficult to identify those foundations which need to sell their controlling interests in for-profit businesses to meet the requirements of the Tax Reform Act of 1969. The act generally requires foundations to divest their "excess business holdings" according to statutorily prescribed time frames, some as late as 1989. Furthermore, without information on how foundation monies are invested it would be difficult to assure that a foundation is receiving a reasonable return on investment and is maintaining the financial strength needed for continued charitable activities.

Although specific asset descriptions are important for public oversight purposes, many of the incomplete reporting foundations did not report detailed information on a significant portion of their investments. As shown in the following table, we estimate that of the 990AR returns which did not contain complete asset descriptions, about 37 percent did not specifically describe at least one quarter of the foundations' assets.

Percentage of Foundations Reporting
Assets With Nonspecific Descriptions
--amounting to --

Foundation Asset Size	1%-24% of assets	25%-74% of assets	75%-100% of assets	Total (note a)	Estimated Number of Foundations
Less than $25,000	67	18	16	100	260
$25,000-$99,999	55	16	29	100	530
$100,000-$999,999	64	23	14	100	1370
$1,000,000 or more	67	23	10	100	810
Overall	63	21	16	100	b/ 2970

a/Totals may not add due to rounding.

b/Analysis accounts for 2970 of the estimated 3100 returns with nonspecific assets because of incomplete information or other inadequacies of the files reviewed.

When a foundation does not describe a substantial portion of its assets, the Congress, the public, and IRS are limited in their ability to oversee the foundation's investment practices. We frequently found that foundations reported assets as "stock" or "loans" rather than listing the specific name of the security such as "'A' Corporation common stock." This is especially significant when those undescribed assets are worth thousands of dollars. For example, as shown in the above table, we estimate that about 33 percent of the 810 foundations reporting over $1,000,000 in assets did not fully describe at least one quarter of their assets--assets worth $250,000 or more. Such reporting practices substantially diminish the value of the returns for public oversight purposes.

Overall results of asset and grant information analysis

A foundation's 990AR return should contain sufficient public information, including grant recipients' names and addresses, grant amounts, and specific grant purposes, to help grant seekers to decide if they should seek financial support from that particular foundation. The return should also contain sufficient information on the foundation's grants and investments to facilitate public oversight which could act as a deterrent to any questionable or self-serving practices. In effect the return should make private foundations accountable for their actions to the public.

As discussed in previous sections, to measure compliance with private foundation public information reporting requirements we analyzed 16 information items on the 990AR return. We estimate that about 94 percent of the 10,930 990AR returns filed at the three service centers omitted some information on at least one of the 16 items. Moreover, as shown in the table below, about 71 percent did not provide complete information on 4 or more of the 16 items.

Number of Incomplete Reporting Requirements	Percentage of 990AR Returns	Percentage Sampling Error at the 95 Percent Confidence Level
10 thru 16	6	± 3
7 thru 9	36	± 5
4 thru 6	29	± 4
2 or 3	12	± 4
1	10	± 3
0	6	± 3
	a/ 100	

a/ Total does not add due to rounding.

This incomplete public information reporting is not just a problem attributable to small foundations. A number of foundations not reporting complete information are rather large in terms of assets accumulated, revenues earned, and grants made. The importance of complete reporting by larger foundations is considerable because of the economic and grant making resources held and the public's interest in those resources.

We performed statistical tests to determine if there was a measurable statistical difference between the completeness of returns filed by small and rather large foundations at the three service centers we visited. To perform these tests, we adopted a size criteria of $1,000,000 in assets or $100,000 of revenue to distinguish between large and small foundations. This size criteria is similar to that adopted by The Foundation Center for determining which large foundations to include in its published foundation directory. In general, as shown in the following table, there is little difference between the completeness in reporting practices of larger foundations and smaller foundations.

Number of 990AR Incomplete Reporting Items	Estimated Percentage of 990AR Returns (note a)		Determination of Statistical Difference at 95 percent Confidence Level
	Large Foundations	Small Foundations	
0	5	8	Not significant
1	12	10	Not significant
2 or 3	15	12	Not significant
4 thru 6	26	29	Not significant
7 thru 9	40	35	Not significant
10 thru 16	3	7	Significant
	100	100	

a/Totals man not add due to rounding.

With the exception of the highest incomplete category analyzed --10 thru 16 reporting items omitted--the larger foundations were just as likely to file incomplete returns as the smaller foundations.

Similarly, as shown below, the degree of incompleteness does not vary substantially among various size foundations as measured by the amount of total grants made during the year except for the largest grant-making foundations. However, even for these foundations, we estimate that 38 percent omitted information on 4 or more of the 16 reporting items reviewed.

Total Grants Reported ($)	Percentage of 990AR Returns Categorized by the Number of Incomplete Items on the 990AR Return: 0	1-3	4-6	7-9	10-16	Total a/	Estimated Number of 990AR Returns
Less than 25,000	9	23	32	35	1	100	6150
25,000-49,999	0	23	23	52	2	100	1100
50,000-99,999	7	19	26	47	0	100	1290
100,000-499,999	2	28	30	39	1	100	1200
500,000-999,999	12	12	32	43	0	100	170
1,000,000 and over	8	54	3	25	10	100	200
Overall	7	24	29	39	1	100	10,110

a/ Totals may not add due to rounding.

Because of the concentration of economic and grant making resources, the importance of complete reporting by even a few larger foundations is considerable. For example, data developed by IRS shows that foundations with revenues exceeding $25,000 --although substantially outnumbered by smaller foundations-- control about 97 percent of total foundation assets and make about 96 percent of total foundation contributions, gifts, or grants. The following table, based on data developed by IRS' Statistics of Income Division during late 1982 for foundation returns filed nationwide for tax year 1979, shows the concentration of the economic and grant-making resources of the larger foundations compared to smaller foundations.

Revenue Category ($)	Number of Foundations	Foundations Resources and Grants Revenue	Assets	Grants
		----Thousands----		
less than 25,000	17,332	$103,691	$1,196,538	$111,520
25,000 - 99,999	5,376	275,979	2,150,050	193,622
100,000 - 499,999	3,371	738,976	4,920,660	417,946
500,000 -999,999	732	502,669	3,409,746	305,666
1,000,000 and over	1,169	4,391,814	22,991,038	1,772,247
Total	27,980	$6,013,129	$34,668,032	$2,801,001

The Council on Foundations has recognized the importance of informing the public concerning the stewardship of assets. Accordingly, in 1975 the Council's Board of Directors adopted a resolution which stated that in addition to the federally required filing of the 990AR return, "any foundation distributing $25,000 or more a year should publish an annual report and make it available to all interested parties." Despite the Council's position, according to statistics compiled by the Foundation Center, only about 500 foundations publish an annual report. Furthermore, according to a 1980 report by the National Committee for Responsive Philanthropy, many of the foundations' annual reports did not meet that committee's standards as "acceptable" for public information reporting. Therefore, complete information on foundation returns becomes increasingly important to those in the public interested in foundation activities.

Analysis of manager
information reporting

Although the 990PF return primarily provides information needed for tax administration, it also includes some important information for the public such as the identity of foundation managers (officers, directors, trustees, and others having similar responsibilities). However, much of this important information is not reported by foundations.

The Internal Revenue Code and IRS regulations specifically require foundations to annually report each foundation manager's name, address, and compensation or other payments. Page 4 of the 990PF return was used to collect this information. Accordingly, we reviewed the 990PF returns filed by private foundations at the three service centers to determine if the returns complied with the three foundation manager reporting requirements.

Analysis of manager
information results

We estimate that only 59 percent of the 14,860 990PF returns filed at the three service centers fully reported all required foundation manager information; 9 percent reported partial information; and 32 percent reported no information. 4/ As shown in the following table, the level of incomplete reporting is about the same for each of the three requirements.

4/Sampling error is within ± 5 percent at the 95 percent confidence level.

Manager Information Reporting Requirements Reviewed	Percentage Of 990PF Returns With Full Information	Partial Information	No Information	Total
listed foundation managers' names	68	(a)	32	100
listed foundation managers' addresses	63	2	35	100
listed foundation managers' compensation	64	1	35	100
Overall requirements reviewed	59	9	32	100

a/ Not applicable

According to officers of associations of grant seekers with whom we spoke, information on foundation management is particularly important. This information provides the name of a personal contact within the foundation to lobby for funding, to promote grant proposals, and to obtain knowledge of the types of grants a foundation will consider. Further, they told us that directly contacting an officer or director in the foundation seems to increase the potential for successfully applying for grants. Additionally, information on foundation management promotes public oversight because it provides information on who is controlling foundation assets.

U.S. GENERAL ACCOUNTING OFFICE
EVALUATION OF IRS' EFFORTS TO ASSURE COMPLETE PRIVATE FOUNDATION REPORTING FOR TAX ADMINISTRATION AND PUBLIC INFORMATION PURPOSES

Our evaluation of IRS' efforts to assure complete private foundation reporting showed that

--IRS has established specific programs to assure that foundations report complete information which IRS has identified as necessary for efficient administration of the tax laws.

--IRS, in contrast, has not established programs to assure that foundations report complete information required by the code and useful to the Congress and the public for oversight purposes and to grant seekers in identifying sources for funding.

--IRS has not used an available enforcement sanction to compel compliance with the code's reporting requirements.

IRS HAS ESTABLISHED SPECIFIC PROGRAMS TO ASSURE COMPLETE TAX ADMINISTRATION INFORMATION

To effectively administer the Internal Revenue Code's exemption provisions within budgetary constraints, IRS has identified specific tax administration information reporting items that it needs from foundations. Over the years IRS, through correspondence and examinations, has educated foundations about these information needs.

We estimate that, prior to correspondence, about 92 percent of the 14,860 990PF returns and about 99 percent of the 10,930 990AR returns filed at the three IRS service centers reported the return information identified by IRS as necessary for efficient administration of the tax exemption law. The most frequent types of reporting omissions on the 990PF returns involved information on

--the fair market value of assets at year end;

--liquidation or substantial contractions;

--transactions that may constitute self-dealing under code section 4941;

--taxable expenditures as defined under code section 4945;

--substantial contributors;

--minimum investment return computations for operating foundations;

--undistributed income from the current tax year that must be distributed in the subsequent year; and

--total expenses for computation of the excise tax based on investment income.

The only information item on the 990AR return identified by IRS as needed for tax administration purposes is the reporting requirement for advertising the public availability of the return.

When the information needed for tax administration purposes is omitted from foundation returns, IRS service centers correspond with the foundations to obtain the information. If the foundation does not respond within 30 days, the service centers process the returns without the information. In 1981, IRS spent about $5,400 to conduct this correspondence program nationwide.

Rather than corresponding a second time to correct the relatively small tax administration reporting problem--about 98 percent of the 990PF returns are complete after service center correspondence--IRS uses its examination program to obtain complete information reporting from the private foundations. Each year, as part of its regular examination program, IRS establishes plans to select and examine the returns of between 5 and 10 percent of foundations nationwide. During these regularly scheduled examinations, IRS requires examining agents to determine if the foundations are complying with tax exemption law, including filing complete returns.

In this regard, the Internal Revenue Manual instructs examiners on how to deal with the general problem of incomplete returns and for specifically dealing with foundations which have not complied with service center correspondence. One section covering examination planning requires that examiners:

> "Review the return for completeness to determine if all required line items and attachments have been completed. If not complete, the organization should be requested to provide this information and then advised in writing of the requirement to provide this information on subsequent returns."1/

1/ Internal Revenue Manual section 7(10)62.1(4).

The same manual section specifies that the attachments reviewed should include "requests from the service center for data needed to complete the return." The section continues with "Areas queried must be resolved during the examination and the organization informed in writing of filing requirements for a complete return." In general, such a letter would state that if a foundation continues to file incomplete returns or reports less information in the future, the foundation's tax-exempt status may be revoked.

Our work at the three service centers showed that examining agents, following these procedures, found incomplete reporting problems in about 8 percent of the examinations conducted. Accordingly, by relying on the routine examination program to find and correct any reporting deficiencies not resolved by service center correspondence, IRS has obtained a high degree of foundation compliance with certain tax administration reporting requirements. Significantly, this was done without shifting examination resources from other areas, such as the unrelated business income tax or other excise taxes applicable to private foundations.

IRS HAS NOT ESTABLISHED SIMILAR PROGRAMS TO ASSURE COMPLETE PUBLIC INFORMATION REPORTING

In contrast to IRS' efforts to obtain compliance with certain tax administration reporting requirements, it makes much less effort to improve the public information reporting practices of private foundations. With few exceptions, IRS service centers do not correspond for information on foundation grant-making programs, investment holdings, or managers omitted from foundation returns. This places the burden of securing complete public information reporting on IRS' examination program. However, the examination program is not currently geared to enforce foundation compliance with those reporting requirements.

IRS seldom corresponds for missing public information items

Of the 16 990AR and 3 990PF required public information reporting items we reviewed, IRS service centers were instructed only to correspond with foundations to obtain information relating to their managers. Further, the service centers were instructed to correspond for missing manager information only when certain conditions are met, such as other reporting items on the return indicating that managers receive compensation.

Given these criteria, the service centers seldom corresponded with foundations to obtain complete manager information. For example, our work indicates that the 3 service centers corresponded with foundations on only about .3 percent of the estimated 6,100 returns which were filed with incomplete manager information.

In November 1981, IRS officials told us that although they would prefer to correspond on all missing private foundation return items, budget limitations have prevented this correspondence. In June 1982, IRS revised its service center correspondence instructions. Specifically, the instructions stated that if page 8 of the new 990PF return is filed with no information, the service centers should correspond with the foundation for the information required by Parts XIII, XIV and XV of the return. These instructions addressed those foundations which report absolutely no information on foundation grant programs and asset holdings and certain other information contained on page 8 of the new return.

The new instructions, however, do not go far enough. Although most foundations did not make full public information disclosures, they did provide some partial information. IRS' revised correspondence instructions do not address these reporting problems. Moreover, IRS subsequently revised the return in January 1983, but did not change the related correspondence instructions. The effect of this was to eliminate the requirement to correspond for missing asset information.

In April 1983, we discussed with responsible IRS officials, how private foundation public information reporting practices could best be improved. They believed that the service center correspondence program should be improved and used as the first step in securing complete private foundation reporting. However, they generally recognized that the service centers do not have the expertise to evaluate the quality of some information reporting, such as complete descriptions of grants or of asset holdings. These evaluations are best made by the technically trained exempt organization specialists currently located at IRS' district offices. These personnel are responsible for examining private foundations and determining their exempt status and can exercise professional judgment based on knowledge of exempt organization law in determining whether the foundations' reporting practices meet the Internal Revenue Code reporting requirements and IRS regulations.

IRS' examination program is not geared to enforce compliance with public information reporting requirements

Since the service centers generally do not correspond for public information, IRS is left with its district office examination program to assure that foundation public information reporting is complete. Despite the high level of noncompliance with the public information reporting requirements, however, IRS has not made a concerted effort to use its examination process to motivate incomplete reporting foundations toward full information disclosures on their annual returns. IRS' system for selecting returns for examination places no emphasis on selecting foundation returns with incomplete public information. Moreover, even when incomplete returns are selected for examination, IRS examiners frequently overlook the problem. In addition, IRS' management information system and compliance measurement program do not enable managers to monitor whether examiners are finding public information reporting problems or not.

IRS' examination selection system does not consider incompleteness

IRS uses a two-step process to select private foundation returns for examination. However, neither step assures that incomplete public information reporting will be addressed by the examination selection process.

As a first step in the selection process, IRS uses a computerized scoring system to rank returns for examination potential. The scoring formula was statistically developed from tax exemption noncompliance found during nationwide Taxpayer Compliance Measurement Program examinations conducted in 1975 and 1976. This compliance measurement program was specifically devoted to private foundations and certain other categories of tax-exempt organizations. Tax exemption noncompliance during this program was defined as examinations which resulted in the

--revocation or termination of a foundation's tax-exempt status,

--changing the category under which the foundation was recognized as exempt, or

--issuance of an advisory letter to the foundation regarding activities that might adversely affect its exempt status.

Accordingly, the scoring system was designed to evaluate foundation returns for tax exemption noncompliance which would be serious enough to adversely affect a foundation's tax-exempt status.

The computer scoring system, as developed, does not guarantee that returns with incomplete public information will receive high scores and thus be selected for IRS examination. In fact, under the scoring system, a foundation not adequately reporting information on all 19 public information return items we reviewed could receive the same computer score as a foundation reporting complete information for all items. As a result, foundations following substantially different public information reporting practices could have the same chance for examination selection during the first step in the selection process.

As a second step in the examination selection process, returns with high computer scores are forwarded to the district offices for manual review. The purpose of the manual review is to further screen those returns with high scores and identify the ones which have the greatest potential for noncompliance with the tax exemption provisions of the Internal Revenue Code. Generally, the manual review process selects for examination about one out of three computer selected returns. After the manual review, returns not selected for examination are returned to the service center for storage.

The manual review, like the computer scoring process, appears to disregard incomplete public information reporting. We reviewed a sample of the 2,921 returns--2,421 990PF and 500 990AR returns--on file at the three service centers which the manual review process determined did not warrant examination. Of these unexamined returns, we estimate that

--44 percent of the 990PF returns did not completely respond to at least one category of required foundation manager information and 33 percent omitted all required manager information.

--53 percent of the 990PF returns exceeded the size requirement for filing a 990AR return but had no attached 990AR, thereby eliminating any consideration of public information in arriving at an examination selection decision.

--96 percent of the 990AR returns did not completely respond to at least 1 of the 16 public information reporting items included in our review and 64 percent omitted information on 4 or more of the reporting items.

IRS officials stated that the manual review, like the computer scoring system, is not used to assure the completeness of returns. In fact, our statistical analysis (performed at the 95 percent confidence level) of returns forwarded to the district offices for manual review showed that reviewers were just as likely to select complete 990AR returns for examination as incomplete ones and were more likely to select complete 990PF returns than incomplete ones. According to IRS officials, the personnel making the examination selections consider the information reported on the return to determine whether examination for substantive noncompliance, such as unrelated business income tax or potential revocation issues, is warranted. For this reason, incompleteness would be considered with all other areas of potential noncompliance when selecting organizations for examination, but generally would not be the sole or primary reason for an examination selection.

Examinations frequently overlook incomplete public information reporting

While examining private foundation returns, IRS examiners frequently overlooked missing public information, especially on the 990AR return. We sampled and reviewed 182 of the 1,365 private foundation examination files located at the three service centers. On the basis of this work, we estimate that IRS examiners notified 8 percent of the examined foundations about incomplete reporting problems. However, we estimate that of the 1,365 990PF and 934 990AR returns contained in the examination files

--29 percent of the 990PF returns did not completely respond to at least one item of required manager information and 20 percent omitted all such required information.

--96 percent of the 990AR returns did not completely respond to at least one of the 16 public information reporting items that we reviewed, and 78 percent omitted information on 4 or more of the items.

In total, about 72 percent of the 1,365 examination files involved incomplete returns for public information purposes; however, the files did not show that the foundations were advised of reporting problems as required by IRS procedures. Moreover, about 25 percent of the examination files did not contain a 990AR return, although the foundations reported assets exceeding the amount that would require the filing of the return. The absence of the return indicates that the quality of public information reporting was not a material part of the examination.

We believe this inattention to missing 990AR information by IRS examiners stemmed from the Internal Revenue Manual not including specific examination guidelines for public information items, as it does for certain other reporting requirements. Consequently, IRS examinations provide little stimulus for private foundations to improve their public information reporting practices.

Examination management information system and compliance measurement program do not cover incompleteness

IRS has a management information system which provides IRS managers with a mechanism to monitor certain compliance problems uncovered during examinations. Also, IRS conducts Taxpayer Compliance Measurement Programs to measure exempt organization--including private foundation--compliance with the tax-exempt laws and to develop computer-assisted examination selection methods. However, these systems have not included data on incomplete reporting for either public information or tax administration information purposes.

The Audit Information Management System collects and summarizes data from the assignment and closing record of each examination. This data includes the principal noncompliance problems identified during examinations, such as self-dealing, excessive private financial benefit, excess business holdings, and other matters relating to tax-exempt status. However, incomplete reporting is not specifically included in the information system as a noncompliance item.

IRS uses the Taxpayer Compliance Measurement Program to statistically measure overall noncompliance with the tax laws and to identify the specific types of noncompliance involved. The data from the program is to be used by IRS managers to improve the efficiency and effectiveness of existing activities such as the

--selection of returns for examination,

--allocation of resources,

--education of taxpayers, and

--development of return forms and instructions.

However, as with the Audit Information Management System, the Taxpayer Compliance Measurement Program does not measure incomplete reporting as a noncompliance item.

Not using either the information system or compliance measurement program to accumulate data on incomplete reporting negatively affects the management of IRS' foundation examination program. IRS management does not know the extent of noncompliance with public information reporting requirements identified during examinations of foundations nationwide. Consequently, IRS managers lack useful information for modifying examination procedures or objectives to respond to this aspect of noncompliance. Similarly, information is not available on whether taxpayer education programs are needed or whether return forms or instructions should be clarified.

IRS should be able to use both the compliance measurement program and the management information system to gather useful data on incomplete reporting at little additional cost. Since the information systems already collect and summarize data from examination assignment and closing records, using the systems to identify incomplete reporting would only require including additional codes to describe incompleteness. According to IRS officials, including the codes would be a minor modification.

IRS HAS NOT USED THE AVAILABLE PENALTY TO COMPEL COMPLIANCE WITH THE REPORTING REQUIREMENTS

During the mid-1960's, because efforts to secure foundation compliance with information reporting requirements were hampered by the absence of an effective sanction, IRS sought congressional enactment of a penalty for use against both late filers and incomplete filers of foundation returns.

The Congress agreed with the need for this change and enacted such a penalty in the Tax Reform Act of 1969. The penalty provision encompasses all types of tax-exempt organizations and specifically provides

> "In the case of a failure to file a return required *** on the date and in the manner prescribed *** unless it is shown that such failure is due to reasonable cause, there shall be paid***by the exempt organization***, $10 for each day during which such failure continues, but the total amount imposed *** shall not exceed $5,000."2/

The provision also authorizes IRS, in certain circumstances, to assess a similar penalty against the foundation manager.

IRS has ruled that the penalty provision is, under certain circumstances, applicable to incomplete foundation returns. IRS' Chief Counsel determined that foundation returns, filed without information required by the code or implementing regulations, could be considered as not being filed in the manner prescribed. Thus, the Chief Counsel maintained that noncomplying foundations and their managers could be liable for the penalty

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2/Internal Revenue Code section 6652(d).

if the omitted information was considered necessary and not furnished by the due date of the return. This interpretation was published as a revenue ruling in 1977 and a General Counsel memorandum in 1978.3/

Since enactment, IRS has considered four different proposals for implementing the penalty provision. However, IRS has not yet issued procedures for implementing the penalty because of concerns about each of the four proposals. For example, during August 1982, the Assistant Commissioner for Employee Plans and Exempt Organizations determined that the penalty provision should not be implemented as proposed because the

--proposal would be too costly,

--penalty could be disproportionate to the offense,

--penalty would probably be frequently abated, and

--magnitude of the incomplete reporting problem seemed controllable without the penalty.

The Assistant Commissioner directed the Exempt Organizations Division to seek alternative ways to improve the completeness of the returns filed. He suggested that improvements could be obtained through expanded instructions on the return and the assertion of penalties, as appropriate, on a case-by-case basis in connection with examinations or the handling of requests for public information.

3/Revenue Ruling 77-162, 77-1 C.B. 400; and General Counsel Memorandum 37785, Incomplete returns program, Correspondence Examination Program, EE-61-78 (December 12, 1978).

 ATTACHMENT VI

In general, we agree with the Assistant Commissioner. We believe the Exempt Organizations Division could use a combination of various approaches to more effectively improve the completeness of returns filed by foundations. Common to these approaches is the concept that the penalty should be assessed when appropriate.

U.S. GENERAL ACCOUNTING OFFICE

ALTERNATIVE APPROACHES FOR SECURING MORE COMPLETE INFORMATION REPORTING BY PRIVATE FOUNDATIONS

The success IRS has had in securing foundation compliance with the tax administration reporting requirements indicates that with limited additional effort similar compliance could be obtained for public information reporting requirements. We identified four approaches under which IRS' Exempt Organizations Division could increase its efforts to secure private foundation voluntary compliance with the public information reporting requirements without substantially increasing IRS service center costs or significantly reducing IRS' potential for the collection of delinquent Federal income taxes. We think IRS should pursue these or similar approaches before considering more costly options.

One approach for securing more complete foundation reporting would be to require the service centers to selectively correspond for public information reporting items omitted from filed returns. Selectivity could be based on such characteristics as foundation size and/or extent of the incompleteness. By adopting such standards, IRS could control the maximum amount of correspondence generated during a year.

A second approach would be to require IRS district office personnel to consider public information reporting requirements during the manual review process for selecting returns for examination. These reviewers are currently instructed not to select a return based solely on information missing from a return. Yet, the Internal Revenue Manual clearly states that examiners should notify organizations in an advisory letter that incomplete reporting is a serious violation of tax-exempt status. Therefore, while examining agents are instructed to take enforcement action to correct incomplete reporting problems, the district office personnel who select the returns to be examined are told not to schedule an examination for only this reason. Opportunities exist for district office personnel to selectively initiate correspondence or correspondence examinations to secure better compliance with the reporting requirements. These methods are more cost efficient than field examinations. Again, such actions could be done selectively on the basis of such characteristics as foundation size and/or extent of noncompliance.

The second approach would be more costly than the first but would provide the additional assurance of having the returns reviewed by qualified technical specialists. The hourly labor costs for office audit average $9.83 per hour versus $6.19 per hour for the correspondence work done at the service centers. However, the manual review of returns for examination represents the first--and for those returns not selected for examination the only--review of foundation returns by technically trained exempt organization specialists who can exercise professional judgment on the basis of knowledge of exempt organization law in determining whether the foundations' reporting practices meet the Internal Revenue Code reporting requirements and IRS regulations.

A third approach would be to rely solely on field examiners to find and correct foundation reporting problems. Considering the past experience of examiners overlooking incomplete public information reporting, however, IRS would need to take certain actions before this approach could be successful. IRS would need to clarify instructions to examining agents and examination reviewers, modify the manual and computer based examination selection system, and establish a monitoring system in order to assure that public information reporting requirements are considered during examinations of private foundations.

A problem with the third approach is that relying solely on field examinations is neither the most expedient nor cost effective means to secure foundation compliance. IRS has resources to examine about 5 to 10 percent of foundations annually. Therefore, it could take from 10 to 20 years for the examinations to address the reporting practices of all foundations. On the other hand, service center correspondence takes about 13 minutes to complete. Furthermore, the average cost per hour of IRS field examiners' time ($11.89) is much greater than either service center correspondence personnel ($6.19) or office examination personnel ($9.83). Even so, it is difficult to consider cost as a justification for not considering incomplete reporting during an examination. If after completing an examination--most of which require about 17 hours to complete--IRS does not notify a foundation of reporting omissions, we doubt that the foundation will change its reporting practices in future years.

A fourth, and perhaps the best, approach for seeking more complete foundation reporting is to implement a combination of features from the preceding three approaches. Through changes to the correspondence, examination selection, and examination processes, IRS could implement a compliance program which would include service center correspondence and district office correspondence, in-office or field examinations, and where necessary, exempt status warnings. This method would (1) increase the emphasis given to incomplete reporting; (2) avoid placing excessive demands on the service center correspondence program or other IRS components responsible for the collection of delinquent Federal income taxes; and (3) through selectivity of actions, minimize budgetary costs or impact on other Exempt Organizations Division program responsibilities.

The combined approach would provide IRS with a systematic series of progressively stronger enforcement actions to secure compliance with the foundation reporting requirements. On the basis of IRS' experience with enforcing the tax administration information reporting requirements, we believe the combined method should help assure that all reasonable steps are taken to point out reporting problems to foundations and encourage compliance. Should these efforts to seek voluntary compliance fail, then IRS could assess the available penalty and subsequently, if necessary, revoke an organization's tax-exempt status. Of course, before IRS can do this it needs to implement appropriate procedures for assessing the penalty.

The four approaches discussed above should not be construed as being all of the options available to IRS. The approaches do, however, provide a framework under which IRS could systematically address the reporting practices of private foundations without impacting significantly on other IRS efforts or other Exempt Organizations Division priorities. Once an approach is adopted, IRS should collect sufficient information for (1) monitoring and assessing private foundation progress in making complete public information disclosures and (2) determining what degree of effort it should apply to the problem or whether to modify its approach.