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BY THE COMPTROLLER GENERAL

Report To The Chairman, Subcommittee On Commerce, Consumer, and Monetary Affairs, Committee On Government Operations House Of Representatives

OF THE UNITED STATES

Public Information Reporting By Tax-Exempt Private Foundations Needs More Attention By IRS

The Internal Revenue Code requires private foundations to make extensive disclosures on their tax returns for tax administration and for public information and oversight purposes. Tax administration information includes such items as schedules of receipts and expenditures, and balance sheets. Public information includes such items as details on foundation grant making programs, and the identity, compensation, and address of foundation managers.

GAO found that, while private foundations generally provide the required tax administration information, they generally do not provide required public information. GAO recommends various alternative approaches and administrative changes to help IRS obtain--with little additional cost or diversion of scarce tax collection resources--more complete public information reporting by tax-exempt foundations.

IRS agreed with GAO's recommendations and has begun implementation.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-211258

The Honorable D. Douglas Barnard
Chairman, Subcommittee on Commerce,
Consumer, and Monetary Affairs
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

As requested by the subcommittee on December 10, 1981, and as discussed in our testimony before you on May 11, 1983, this report addresses the Internal Revenue Service's (IRS') efforts to assure that private foundations comply with the tax administration and public information reporting requirements of the Internal Revenue Code. The report discusses the importance of this information, the extent to which each type is being reported, and options available to IRS for securing more complete foundation reporting.

As arranged with your office, we are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Commissioner of Internal Revenue. Copies will also be made available to other interested parties.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

REPORT TO THE CHAIRMAN, SUBCOMMITTEE ON COMMERCE, CONSUMER, AND MONETARY AFFAIRS, HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

PUBLIC INFORMATION REPORTING BY TAX-EXEMPT PRIVATE FOUNDATIONS NEEDS MORE ATTENTION BY IRS

D I G E S T

With reductions in Federal spending, Federal aid to education, health, and social welfare--as well as to the public in general--is diminishing. As a result, many people look to private charitable organizations such as tax-exempt private foundations to help fill the gap. According to the latest available data accumulated by IRS, during tax year 1981 there were about 32,000 private foundations. They had about $51 billion in assets and had awarded about $3.7 billion in charitable contributions or grants.

Private foundations are required by the Internal Revenue Code to make extensive public disclosures on returns filed with the Internal Revenue Service (IRS). This information on grant making programs, investments, and foundation managers is useful to the Congress and the public for monitoring foundation activities, and to grant seekers for identifying those foundations most likely to fund their proposals. Additionally, the public information is necessary for IRS to administer the revenue laws. (See pp. 5 to 11.)

Information on private foundation activities is in substantial demand and is widely distributed and used. Annually over 120,000 grant seekers and others interested in foundation accountability visit libraries with special collections of private foundation information. Also, over 40,000 copies of foundation directories, data books, and other summaries were sold last year. Much of the information obtainable from these sources is based on, and available only from, analysis of private foundation returns filed with IRS. (See pp. 5 and 6.)

Currently, private foundations generally comply well with certain tax administration

SEPTEMBER 26, 1983

reporting requirements which IRS through its enforcement efforts has shown are important. However, IRS has devoted less attention to the public information reporting requirements, and, consequently, most foundations do not make full information disclosures on their returns. To assure that the public's information needs for oversight and grant seeking purposes are met, IRS needs to make administrative changes to better enforce those tax exemption reporting requirements. (See p. 47.)

In view of private foundations' significant role in providing aid, and concerns that the public information reporting requirements were not being met, the Chairman, Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations asked GAO to evaluate how well IRS assures that private foundations comply with the reporting requirements of the Internal Revenue Code.

MANY PRIVATE FOUNDATIONS FILE INCOMPLETE PUBLIC INFORMATION RETURNS

At the time of GAO's review--September 1981 through November 1982--foundations were required to annually make two detailed information filings on their activities. One, the 990PF return, was primarily for tax administration information reporting but also served public information reporting purposes. The other, the 990AR return, was primarily for public information and oversight reporting but also served tax administration reporting purposes. GAO reviewed both returns. Subsequent to the initiation of GAO's review, these returns were consolidated into one form. The new return affected tax year 1981. However, because the return is not required to be filed until 5-1/2 months after the close of a foundation's fiscal year, some foundations probably would not have filed the return until as late as May 1983--well after GAO completed its work. (See p. 8.)

GAO visited three IRS service centers which together process about 40 percent of all foundation returns. On the basis of a review of 51 information items, GAO estimates that about 92 percent of the 990PF returns and 99 percent of the 990AR returns reported all the information identified by the three service centers GAO visited as necessary for efficient administration of the tax exemption law. In contrast, on the basis of a review of 19 key information items, GAO estimates that about 41 percent of the 990PF returns and 94 percent of the 990AR returns did not completely respond to certain public information reporting items. GAO has no reason to believe that results different from those discussed above would be obtained from a review of the new combined form. This is because the new form includes the previously separate 990AR and 990PF reporting requirements and because of IRS' problems in dealing with foundation public information reporting practices discussed below. (See pp. 12 to 27.)

IRS CAN ENSURE MORE COMPLETE PRIVATE FOUNDATION ANNUAL REPORTING

To ensure the completeness of private foundation returns for tax administration information purposes, IRS service centers screen the returns on receipt. The centers correspond with foundations for missing information which IRS has determined is important. This resulted in about 98 percent of the foundation 990PF returns being complete with respect to tax administration reporting requirements. For the remaining returns IRS relies on its routine examination program to secure foundation compliance with the reporting requirements. Each year IRS examines about 5 to 10 percent of the foundations nationwide. (See pp. 28 to 30.)

In contrast, because the service centers generally do not correspond for missing public information, IRS depends on its routine examination of foundation returns to assure that public information reporting is complete. Omission of this information, according to IRS, would hinder or prevent it from being able to perform its congressionally assigned duties, such as assuring information is available to facilitate public oversight of private foundations. However, IRS district office personnel frequently overlook these omissions when selecting returns and conducting foundation examinations. GAO estimates that about two-thirds of the examinations completed by district offices within the jurisdiction of the three service centers it visited involved incomplete returns with respect to public information reporting requirements. Yet the examination files did not show that the foundations were advised of the reporting problems. (See pp. 30 to 36.)

GAO believes that one reason examiners overlook this problem is that the Internal Revenue Manual does not sufficiently advise examiners of their responsibility for obtaining certain public information. Until the manual is revised, IRS examiners will have no manual guidance for evaluating the completeness of public information reporting. Further, IRS' management information system does not capture information on examination findings of incomplete reporting; and past taxpayer compliance measurement programs have not determined the degree of noncompliance with public information reporting requirements. (See pp. 36 to 39.)

In addition to enforcing the reporting requirements through correspondence and examinations, IRS is authorized by the Internal Revenue Code to assess a penalty against foundations filing an incomplete return. This penalty is $10 for each day the information is not provided up to a maximum of $5,000. Although Treasury and IRS officials have recognized the need for such a penalty to facilitate administrative action to correct the problem, IRS has neither assessed the penalty nor established procedures to do so. IRS has considered several proposals for implementing the penalty, but each has been withdrawn primarily due to the potentially harsh effect of assessing the penalty on some foundations and due to concerns with the costs of redirecting scarce tax collection resources to nontax revenue producing activities. (See pp. 39 to 42.)

SOME ALTERNATIVES FOR ACHIEVING GREATER REPORTING COMPLIANCE

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 voluntary compliance could be obtained in this area as well. GAO identified four approaches which IRS could follow to improve public information reporting without substantially increasing IRS service center and district office costs or reducing the potential for the collection of delinquent Federal income taxes. These approaches, though not all inclusive, are intended to suggest to IRS systematic ways of dealing with the reporting practices of foundations. (See pp. 42 to 45.)

GAO favors a systematic approach which adopts progressively stronger enforcement actions from service center correspondence through district office examinations. Regardless of the approach adopted, however, IRS should increase the attention paid to public information reporting during examinations and collect sufficient information to monitor and assess private foundation progress in making disclosures. Such information would enable IRS to make better decisions on the degree of effort it should apply to the problem or whether to modify its approach. Common to all these approaches is the notion that, should its efforts to secure a foundation's voluntary compliance fail, IRS should resort to assessing the penalty, or subsequently taking the more drastic action of revoking a foundation's tax-exempt status. (See p. 46.)

RECOMMENDATIONS

To improve private foundation compliance with the Internal Revenue Code's public information reporting requirements, GAO proposes various alternative approaches and recommends that the Commissioner of Internal Revenue adopt a systematic enforcement approach which combines an appropriate mix of increased correspondence and examination related functions. GAO also recommends various other administrative changes including (1) advising examining agents of the responsibility to secure foundation compliance with the reporting requirements, (2) monitoring the effectiveness of the overall compliance approach selected, and (3) establishing procedures to assess the incomplete reporting penalty. (See p. 47.)

AGENCY COMMENTS AND GAO'S EVALUATION

IRS agreed that a systematic approach is necessary and has taken steps to act on GAO's recommendations. (See p. 48.)

The Council on Foundations requested that its unsolicited comments be included in GAO's final report. The Council supported GAO's recommendations. However, it was concerned that GAO's report placed too much emphasis on public information reporting and did not fully reflect the high level of complete foundation reporting of tax administration information. GAO maintains that its analysis of private foundation returns was balanced between the two equally important statutory reporting requirements and fully considered the completeness of both. (See p. 27.)

The Council also attributed incomplete public information reporting to foundations' good faith misunderstanding of the requirements due to unclear instructions and forms. GAO points out that the IRS instructions included illustrated examples of properly completed forms and that GAO used those examples in doing its review. Moreover, the Council in its comments acknowledged that IRS has continually taken actions to assure that private foundation returns and instructions are clear by coordinating form development with the foundation community and grant seekers. (See p. 49 and app. VIII.)

Contents

ABBREVIATIONS

GAO	General Accounting Office
IRS	Internal Revenue Service
990PF	Return of Private Foundation Exempt from Income Tax
990AR	Annual Report of Private Foundation

CHAPTER 1

INTRODUCTION

With reductions in Federal spending, Federal aid to education, health, and social welfare--as well as to the public in general--is diminishing. As a result, many people look to private charitable organizations such as tax-exempt private foundations to help fill the gap. According to the latest available data accumulated by IRS, during tax year 1981 there were about 32,000 private foundations. They had about $51 billion in assets and had awarded about $3.7 billion in charitable contributions or grants.

In view of private foundations' significant role in providing aid, the Chairman, Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations asked the General Accounting Office (GAO) to evaluate how well the Internal Revenue Service (IRS) assures that private foundations comply with the reporting requirements of the Internal Revenue Code. The information returns required by the code provide a primary, and often the only, source of private foundation information other than the individual foundations themselves. Accordingly, the subcommittee was particularly concerned that if IRS has been accepting incomplete tax-exempt returns, groups who have been cut off from traditional Government funding sources may not have easy access to the information needed to seek funds from private foundations.

PRIVATE FOUNDATION ANNUAL REPORTING REQUIREMENTS

To help assure that tax-exempt private foundations serve public interests as opposed to private interests, the Congress enacted special public information reporting requirements under the Tax Reform Act of 1969. These requirements supplemented the reporting requirements already established in the Internal Revenue Code. In effect, the Congress required foundations to be accountable for their actions to both the public and IRS.

To implement both the public information and tax administration reporting requirements, IRS developed two annual returns:

- --The Return of Private Foundation Exempt from Income Tax (Form 990PF) was developed primarily for tax administration information reporting; and

- --The Annual Report of Private Foundation (Form 990AR) was developed primarily for public information reporting.

Copies of the 990PF and 990AR returns for tax years beginning in 1980 are shown at appendix II and appendix III, respectively. The 990AR return was an optional form. Private foundations could file an alternative document provided that it contained the information required by the 990AR return. On the basis of our samples taken at three IRS service centers (see pp. 8 and 9 for discussion), we estimate that about .3 percent of the foundations subject to the 990AR reporting requirements filed an alternative form. Therefore, for the purposes of this report, we considered all such filings to be 990AR returns.

The Congress has shown a continuing interest in detailed public information reporting by private foundations. In 1980, the Congress passed Public Law No. 96-603 to simplify private foundation reporting requirements by consolidating the public information and tax administration reporting requirements into a single return. Although the law was enacted to eliminate duplicate information reporting and reduce foundations' paperwork burden, all previous 990AR reporting requirements were incorporated into the new law without change.

To comply with the change in the law, IRS redesigned the 990PF return for the 1981 filing year to incorporate the prior 990AR return information. Following public comment on the revised 990PF return and concern expressed on the Senate floor, this 1981 revision of the 990PF return was further revised to include additional public information reporting. These revisions included provisions for detailed information on how grant seekers can apply for funding from private foundations which award grants, scholarships, fellowships, and similar benefits. A copy of the revised 990PF is shown in appendix IV.[1]

Tax administration reporting requirements

Both the original and revised 990PF return provides information IRS needs to administer the tax laws. The return requires detailed financial information from foundations such as analyses of receipts and expenditures, balance sheets, and other computations needed to determine compliance with the foundation

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[1]/As discussed in the scope section of this chapter, the revised form 990PF was not required to be filed until well after our review was initiated. However, the revised form 990PF contains all of the information required by the previous 990PF and 990AR returns reviewed in our work. Consequently, our findings should also be applicable to the consolidated form.

excise taxes imposed by Chapter 42 of the Internal Revenue Code. Chapter 42 establishes a 2-percent excise tax based on foundation investment income. The 2-percent excise tax was enacted to defray IRS' costs in administering the tax exemption law. Chapter 42 also establishes other excise taxes on certain types of foundation transactions or activities. These other excise taxes were enacted to discourage foundations from entering into transactions or activities which the Congress considered not in keeping with the concept of tax exemption. Additionally, the return requires information on foundation activities, and the names of substantial contributors as well as the names of the foundations' officers, directors, trustees, managers, and highest paid professionals.

IRS needs complete information from the 990PF return for several tax administration purposes. It uses the return to verify the computation and payment of the excise tax based on investment income and to collect information on foundations' tax-exempt activities and charitable distributions. It also uses the return to select foundations for examination and to collect statistical data.

In addition, IRS also makes the return available for public inspection. Besides tax administration information, the 990PF return provides information which helps satisfy public information needs. The original 990PF return contained information on foundation activities, lists of substantial contributors, officers, directors, trustees, foundation managers, and highest paid professionals. Further, the balance sheet and income statement are also useful as public information on the foundation's financial resources. The revised 990PF return, in addition to this information of public interest, contains the previous 990AR information.

Public information reporting

The Congress enacted reporting requirements which led to the establishment of the 990AR return and its subsequent incorporation into the revised 990PF return for disclosure and public information reporting purposes. These requirements cause foundations to be accountable to both IRS and the public.

Former Senator Carl Curtis introduced the 990AR reporting requirements as a floor amendment to the Tax Reform Act of 1969. According to Senator Curtis, sufficient information should be disclosed to help guarantee that each and every foundation "will act in the public interest, and also so that interested parties, the general public, the Internal Revenue Service, the Congress, and the committees concerned, will have accurate information."2/ To accomplish these ends, the amendment was very specific as to the information required to be reported by foundations. In fact, IRS has not found it necessary to issue substantive clarifying regulations. However, not all foundations are subject to the reporting requirements. Foundations with at least $5,000 in assets at any time during the year are required to file with IRS the information previously required on the 990AR return and to make that information available to the public.

The public reporting requirements cause foundations to be accountable for their use of foundation funds. Foundations must report detailed information on their grant-making programs and investments as well as information on their income, expenses, and disbursements. The floor amendment's sponsor, Senator Curtis, believed that the operation of a tax-exempt foundation is a public trust and that this information is therefore of public concern. He stated that "There are concerned people who want to get contributions and grants from the foundations. There is the taxing service; there are the committees of the Congress." Senator Curtis believed that, if a foundation made a grant for a questionable purpose or if a foundation was operated in a manner not consistent with public interest, it would be "smoked out" since the public reporting requirements would subject foundations to public inspection.3/

To assure public access to foundation return information, the Internal Revenue Code includes special publicity and penalty provisions. Foundation managers must make the return available for inspection at the principal office of the foundation during regular business hours by any citizen on request made within 180 days after the date of the publication of notice of its availability. The return is also furnished to State officials. The code authorizes a series of penalties for failure to file returns or make them available for public inspection. Each such failure is subject to a penalty of $10 for each day which the failure continues up to a maximum of $5,000, and can generally be assessed against the foundation and the foundation manager. In addition, the code authorizes a penalty of $1,000 per return for willful failure to publish a newspaper notice concerning the return's availability or provide the return upon request.

2/115 Cong. Rec. 37000 (1969) (statement of Sen. Curtis).

3/Id. at 37001.

THE PUBLIC NEEDS THE INFORMATION REPORTED BY PRIVATE FOUNDATIONS

Private foundation returns provide the public with a widely used source of often unique information on foundation grant-making activities. The returns have gained increased importance as Government funds, a traditional source for charitable funding, have dwindled. As intended by the Tax Reform Act of 1969, the information also allows the public, IRS, and the Congress to monitor foundation activities to assure that those activities serve public rather than private purposes.

Grant seekers need complete private foundation information. In general, grant seekers include charitable tax-exempt organizations, such as schools, churches, hospitals, and community groups, seeking funds for public service programs and activities. Some grant seekers are private individuals seeking educational scholarships or research grants. According to the Foundation Center, a national nonprofit service organization founded to make information on private foundations more accessible to the public, only about 7 percent of the nearly one million grant proposals submitted by grant seekers to foundations each year are subsequently funded. Consequently, grant seekers need complete information on grant programs to determine which of the 32,000 foundations have interests similar to theirs and would be most likely to fund their proposals. The combination of the large number of potential sources of foundation funds and the low grant acceptance rate make grant seeking a complex and time-consuming process.

In addition to using private foundation information to research grants, the public also needs the data to evaluate foundation activities. The Congress, when considering the public reporting requirements established by the Tax Reform Act of 1969, reasoned that foundations would be more likely to act in the public's interest if they were required to fully disclose their activities. A national coalition of social action, public interest, and other community based organizations also believes that information disclosure is important. The coalition has stated that:

> "Information allows the public to evaluate how effectively foundations are performing as public trusts. It allows the public to have some influence on foundations. It allows all grantseekers, including new and relatively

unsophisticated grant-seekers, to have at least some access to foundations. It offers an opportunity for foundations to get some response from the public and from grant-seekers to their activities and priorities. And the process of developing informational materials offers foundations opportunities to evaluate what they are doing internally."[4]

Information which simplifies the search for foundation support is in substantial demand and is therefore widely distributed and used. During 1981, The Foundation Center 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 Foundation Center publishes a number of different directories, data books, and extracts from computer based information systems. In 1981, over 40,000 copies of these information items were sold. Additionally, the Taft Corporation, a private profit-making concern, publishes a wide variety of directories and provides other information services solely to assist grant seekers to more effectively identify sources of foundation support.

Much of the information published on foundation activities is based on, and available only from, an analysis of private foundation returns. According to officials of The Foundation Center and Taft Corporation, much of the data in their publications, directories, libraries, and services is derived from IRS return information. According to representatives of both organizations, requests to foundations for information not available from annual returns filed with IRS results in only limited additional information. Further, only about 500 large foundations publish an annual report available to the public in addition to the returns they file with IRS. For small foundations, the annual return filed with IRS often represents the only source of information because published directories are generally limited to providing information on large foundations. However, The Foundation Center maintains copies of all foundation returns at their libraries to meet the public's needs.

IRS' ADMINISTRATIVE ROLE

IRS is responsible for collecting private foundation excise taxes and performing other regulatory functions in accordance with the Internal Revenue Code. These regulatory responsibilities include (1) determining and ruling on the qualifications of

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[4]/Foundations & Public Information: Sunshine or Shadow? (National Committee for Responsive Philanthropy, 1980), p.12.

foundations seeking tax exemption, (2) examining private foundations to assure that they operate for the purposes for which they are exempt and comply with all tax exemption requirements including public information reporting requirements, and (3) making foundation returns available to the public on request. As part of these responsibilities, IRS designs, processes, and examines the returns required by the Internal Revenue Code.

IRS' responsibilities are shared by three Associate Commissioners and four Assistant Commissioners. The Associate Commissioner (Operations) with the Assistant Commissioner for Employee Plans and Exempt Organizations has overall responsibility for administering and enforcing tax exemption laws. Also, the Associate Commissioner (Operations) with the Assistant Commissioner (Collection) is responsible for securing delinquent returns and collecting delinquent accounts. The Associate Commissioner (Policy and Management) and the Assistant Commissioner (Support and Services) have responsibility for developing the reporting forms. The Associate Commissioner (Data Processing) and Assistant Commissioner (Returns and Information Processing) have responsibility for receiving and processing the returns.

To process private foundation returns, IRS uses essentially the same service center system it uses for all other tax returns. Of IRS' ten service centers, nine process exempt organization returns. The processing includes verification of return accuracy and completeness through various manual and computer tests. For example, to identify incomplete returns, as discussed in chapter 3, service center personnel manually review each return against a predetermined list of items. If the return is incomplete according to IRS criteria, processing is suspended and the service center corresponds with the foundation to obtain the missing data. The returns are also microfilmed for periodic distribution to The Foundation Center and to others upon request as well as for other internal IRS uses. According to IRS records, during 1981 IRS processed 31,328 990PF returns and their associated 990AR returns at an estimated cost of $245,000. IRS further estimates that, of the returns processed, about 3,500 required correspondence by the service centers at a cost of $5,400.

To assure that private foundations comply with the Internal Revenue Code, IRS annually selects a number of foundations for examination. In addition to reviewing foundation compliance with the code's tax exemption provisions which include the filing of complete returns, the examinations also consider employment and unrelated business income tax matters. These examinations are conducted by 17 key district offices located throughout the country. In fiscal year 1981, the key district offices examined 3,774 private foundation returns or about 12 percent of the 990PF returns filed during that year.

OBJECTIVES, SCOPE, AND METHODOLOGY

As requested by the Chairman, 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 three 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 appendix I.

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, some foundations would not 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 changes in its enforcement activities for private foundations, we have no reason to believe that the results of our analysis would differ from 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.

--Council 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 and equally important reporting purposes of the returns--tax administration and public 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 the service centers to correspond with foundations if these items are omitted from the foundation returns filed. These items are most directly related to tax administration and, in essence, are 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. For our analyses throughout the report 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 portfolios, 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 * * *."5/

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. For our analyses throughout the report these information items are referred to as "public information reporting items." The items reviewed are discussed in detail in chapter 2 and appendix I.

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

5/General Counsel Memorandum 38760, Incomplete Returns, EE-145-80 (June 29, 1981).

CHAPTER 2

MANY PRIVATE FOUNDATION RETURNS

DO NOT PRESENT COMPLETE PUBLIC INFORMATION

Despite the public's need for and use of private foundation return information, most foundations filing returns at the three service centers had not fully disclosed the information required by the Internal Revenue Code's public information reporting requirements. On the other hand, most of these foundations had complied with the code's tax administration reporting requirements. As discussed in chapter 3, this difference in the foundations' reporting practices generally corresponds with the degree to which IRS programs emphasize the necessity for complete information reporting. IRS has successfully assured foundation compliance with the tax administration reporting requirements. With little additional cost or effort, IRS could also obtain increased foundation compliance with the public information reporting requirements.

PUBLIC INFORMATION REPORTING-- A SIGNIFICANT COMPLIANCE PROBLEM

The Congress established a number of foundation reporting requirements for public oversight and disclosure purposes. In turn, IRS required foundations to report this public information on the 990AR return and, to a more limited extent, on the 990PF return. However, most foundations filing these returns at the three service centers did not completely respond to at least one of 19 information items comprising 2 sections of the 990AR return and one section of the 990PF return. In IRS' opinion, not providing the information as required by these sections, should be treated as the filing of an incomplete return. Further, foundations frequently did not respond to more than one item. Many of the foundations which did not file complete returns award grants which are substantial enough in number or amount to be of interest to the grant seeking public.

Almost all 990AR returns were incomplete

A completed 990AR return should have contained sufficient public information, including grant recipients' names and addresses, grant amounts, and specific grant purposes, to enable grantseekers to decide if they should seek financial support from that particular foundation. The return should also have contained 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 have made private foundations accountable for their actions to the public.

To measure compliance with private foundation public information reporting requirements we selected 16--but not all--information items on the 990AR return. As discussed on pages 10 and 11 and in appendix I, we only selected those information items that, when taken together, represent major foundation reporting objectives on grant making programs and investment portfolios. 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 incompleteness can reduce the usefulness of the returns to grant seekers and for assuring that foundations are accountable for their actions to the public--two major purposes of the returns. The following two sections describe the information required to be reported, the type and frequency of the reporting omissions, and the public's need for and use of the information.

Most 990AR returns omitted essential information on foundation grant programs

Section 6056(b)(7) of the Internal Revenue Code required that private foundations provide "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* * *."[1]

IRS used page 4 of the 990AR return (see app. III) 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.

Appendix I contains an explanation of how we reviewed the returns and the criteria used.

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.[2] Also, about 76 percent did not completely report information on grants approved for future payment.[3] As shown by the following table, foundations omitted substantially more information on grants approved for future payment than on grants paid during the year.

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[1]/Public Law No. 96-603 repealed section 6056 of the Internal Revenue Code when the 990PF and 990AR returns were combined. However, section 6033 of the code requires all the information previously required under section 6056.

[2]/Sampling error is $\pm$ 4 percent at the 95 percent confidence level.

[3]/Sampling error is $\pm$ 4 percent at the 95 percent confidence level.

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

a/Total does 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 useful to grant seekers and necessary for assuring public accountability. The 990AR return (and now the revised 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 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.

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

	Grants Paid During The Year --Percentage of 990AR returns with--				Grants Approved For Future Payment --Percentage of 990AR returns with--			
Reporting Requirements Reviewed	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.

Some 990AR returns omitted information on foundation investments

Internal Revenue Code section 6056(b)(5) required 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 (see app. III) 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
--specifically described securities and other assets.

Our review technique was similar to that employed for the 990AR grant information and is explained in appendix I.

Our results showed 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.[4] 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 10,930 990AR returns (28 percent) did not specifically describe all securities and other assets.

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

Investment Reporting Requirements Reviewed	Percentage Of 990AR Returns With			
	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 $51 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 difficult 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. Also, 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.

Foundation Asset Size	Percentage of Foundations Reporting Assets With Nonspecific Descriptions —amounting to — 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. As discussed in appendix I, 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 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.

Many 990PF returns did not report all public information

Although the former 990PF return primarily provided information needed for tax administration, it also included 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 was not reported by foundations.

The Internal Revenue Code and IRS regulations[5/] specifically require foundations to annually report each foundation manager's name, address, and compensation or other payments. Page 4 of the 990PF return (see app. II) 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.

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.[6/] As shown in the following table, the level of incomplete reporting is about the same for each of the three requirements.

5/Internal Revenue Code sections 6033(b)(6) and 6033(b)(7); and Internal Revenue Regulations section 1.6033-2(a)(2)(ii).

6/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

To identify the effect of this lack of information, we interviewed officers of four associations of grant seekers. From these interviews we found that 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.

Incomplete reporting by larger foundations is significant

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. However, opinions vary as to the exact size where complete information from foundations is needed by grant seekers.

To determine if reporting varied by foundation size, we compared the incompleteness rates of foundations by various asset, revenue, and grant size categories. We found that larger foundations file incomplete public information returns at about the same high rate as small foundations. For example, we estimate that about 92 percent of the 990AR returns filed at the three service centers by foundations reporting revenue between $1 and $24,999 were incomplete. Likewise, about 93 percent of the 990AR returns reporting revenue between $500,000 and $999,999 were incomplete and about 94 percent of those reporting revenue over $1 million were also incomplete. Appendix V and appendix VI compare the high rates of incomplete 990AR and 990PF returns for public information reporting purposes according to various revenue, asset, and grant size categories.

We also 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. 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 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 may 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 Foundation 990AR Returns Categorized by the Number of Incomplete Items on the 990AR Return: 0	1-3	4-6	7-9	10-16	Total (note 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	Foundation Resources and Grants: Revenue	Assets	Grants
		----Thousands----		
Less than 25,000	17,671	$ 95,884	$1,283,542	$121,809
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	830	4,399,621	22,904,033	1,761,958
Total	27,980	$6,013,129	$34,668,031	$2,801,001

The Council on Foundations has recognized the importance of informing the public concerning the stewardship of assets. Accordingly, by 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 of an estimated 7,400 foundations which make grants exceeding $25,000 publish an annual report. Furthermore, according to the only data available, a 1980 report by the National Committee for Responsive Philanthropy,7/ many of the foundations' annual reports did not meet that committee's standards as "acceptable." Therefore, complete information on foundation returns becomes increasingly important to those in the public interested in foundation activities.

As discussed in chapter 1, grant seekers are particularly interested in complete information from foundations which have committed resources to grantmaking programs. However, there is no universal agreement on the exact size threshold when detailed and complete information reporting by foundations is necessary. In contrast to the Council's position, a representative of a group of charities located in Washington, D.C., told us that he would like to see complete information from all sizes of foundations. Others involved in foundation fund raising are interested only in the larger foundations--those foundations capable of routinely making $10,000 to $50,000 or more in individual grants. In fact, the demand for information on larger foundations is so great that various organizations have found a market for publishing reference books on foundations with annual revenues exceeding $100,000. On the other hand, returns from even the smallest foundations are of sufficient public interest that The Foundation Center obtains copies from IRS and keeps them on file in the Center's regional libraries to facilitate public access.

TAX ADMINISTRATION INFORMATION REPORTING--A MINOR COMPLIANCE PROBLEM

To effectively administer the Internal Revenue Code's exemption provisions within budgetary constraints, IRS has identified specific tax administration information reporting items

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7/Foundations & Public Information: Sunshine or Shadow?; National Committee for Responsive Philanthropy, 1980.

that it needs from foundations. Over the years IRS, through correspondence and examinations, has educated foundations about these information needs (see pp. 28 and 29). As a result, most foundations file annual returns with the information IRS needs for tax administration purposes. In fact, the same foundations which do not make full public information disclosures on their returns generally file complete returns for tax administration purposes.

IRS has determined that it needs information to (1) have some objective basis on which to select foundations for examination, (2) make the financial status of foundations a matter of public record, and (3) collect the excise tax based on foundation investment income. As discussed in chapter 3, IRS corresponds with foundations from the service centers when the returns do not provide the needed information. For returns processed during 1981, IRS corresponded on 50 items on the 990PF return and one item on the 990AR return. In most cases, IRS' correspondence efforts resulted in the foundations providing the requested information.

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;

--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.

Small private foundations more frequently file returns with incomplete tax administration information than larger foundations. However, compared to the high rates of incomplete public information reporting, even these problems are not extensive. For example, we estimate that about 9 percent of foundations reporting annual revenue of less than $25,000 filed incomplete returns for tax administration purposes while about 3 percent of foundations reporting over $1 million of revenue filed incomplete returns. In contrast, as shown at appendix V, over 90 percent of foundations did not report complete public information.

CONCLUSIONS

In addition to requiring foundations to report information to IRS for tax administration purposes, the Congress, in passing the Tax Reform Act of 1969, established a number of private foundation reporting requirements for public information and disclosure purposes. In effect, the act required foundations to be accountable for their actions to the public, as well as report extensive information on their grant making programs to satisfy grant seekers' needs for this information. The returns have proven to be a widely used and irreplaceable source of information to assist grant seekers in determining whether or not to seek financial support from individual foundations.

Much of the information required by law and of significant interest to grant seekers or important for public accountability reasons is not reported on foundation returns filed with IRS. Specifically, information on foundation grant programs, investment portfolios, and the identity of those responsible for managing foundation activities is too frequently incomplete, vague, or not reported. These reporting omissions reduce the returns' usefulness to grant seekers and limit the public's ability to oversee foundation activities.

The same foundations which did not make full public information disclosures on their returns tended to provide complete information for tax administration reporting purposes. As discussed in chapter 1, we believe the same level of compliance would continue on the new consolidated 990PF return. As discussed in the next chapter, IRS, through correspondence and examinations, has pointed out which tax administration reporting requirements are important. Likewise, considering the public's need for and use of return information, IRS should be working with foundations to improve their public information reporting practices.

AGENCY COMMENTS AND OUR EVALUATION

In a May 26, 1983, letter, the Council on Foundations requested that its unsolicited comments be included in our final report. This request followed hearings held on a draft of this report on May 11, 1983, before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the House Committee on Government Operations. Our analyses of the Council's comments are directed primarily toward the opinions expressed in its transmittal letter which is reproduced as appendix VIII. However, we also provided GAO responses to the issues raised in the enclosure to the Council's letter.

The Council expressed concern that our report did not fully consider the importance of tax administration reporting. It indicated that GAO placed too much emphasis on public information reporting and that the very high levels of complete reporting on tax administration items means foundations are providing all the information needed to ensure compliance with the Internal Revenue Code.

Indeed, the items stated by the Council are requirements of the law which we considered as tax administration reporting items. However, there are other requirements of the law which we considered as public information reporting items.

In this regard, our analyses of private foundation returns were balanced between the two basic and equally important reporting purposes. As discussed on pages 24 to 26, our examination covered 51 correspondence items directly related to tax computation and enforcement--items which we defined as tax administration items. As discussed on pages 12 to 21, our examination also covered 19 items needed for public oversight and grant seeking purposes. Consequently, we believe that our analyses fully considered the completeness of each type of reporting requirement.

CHAPTER 3

IRS CAN ASSURE MORE COMPLETE PRIVATE FOUNDATION REPORTING

Over the years IRS has taken actions to obtain certain tax administration information not reported by private foundations on their annual returns. It has not, however, taken sufficient similar actions to assure that private foundations meet the public information reporting requirements established by the Internal Revenue Code. IRS' success in getting private foundations to report complete tax administration information indicates that foundations try to comply with those reporting requirements which IRS indicates, through its actions, are important and attempts to enforce. Thus, similar IRS efforts to enforce the public information reporting requirements should substantially increase private foundation compliance with those requirements. Such efforts would cost IRS little but should help assure greater public accountability of foundations and meet the public's need for information.

IRS' EFFORTS TO OBTAIN COMPLIANCE WITH TAX ADMINISTRATION REPORTING REQUIREMENTS HAVE BEEN SUCCESSFUL

Over the years, IRS has used a combination of limited correspondence with routine examinations of foundations to enforce compliance with tax administration reporting requirements. These efforts have been generally successful in securing foundation compliance with the tax administration reporting requirements. As discussed on pages 24 to 26, about 92 percent of the foundations filed complete 990PF returns for tax administration purposes. Moreover, IRS' ongoing efforts to assure that foundations improve on their tax administration information reporting practices have added little cost to IRS' exempt organization activities.

Initial correspondence with noncompliant foundations is generally successful

When information needed for tax administration purposes is omitted from a foundation's return, IRS service centers generally correspond once with the foundation to obtain the information. If the foundation does not respond within 30 days, the service centers process the returns without the information. The service centers do not correspond again to obtain missing information regardless of the importance of the information or the size of the foundation. In 1981, IRS spent about $5,400 to conduct this correspondence program nationwide.

Generally, IRS is able to obtain almost all the information it needs for tax administration purposes with just the one followup contact. For the IRS files we analyzed, we estimate that after one letter, 80 percent of the foundations provided all of the information requested.[1/] Of the foundations that did not respond as requested, about three-quarters had reported revenues of less than $25,000 and about two-thirds had reported assets of less than $25,000. Overall, our analysis showed that less than 2 percent of the returns filed at the three service centers remained incomplete after IRS wrote once to the foundations and that these returns generally involved small foundations.

Compliance is further increased through the examination process

Rather than corresponding a second time to correct the relatively small tax administration reporting problem, 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."[2/]

1/The files reviewed represented about 90 percent of the returns with IRS correspondence.

2/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 enforcing the unrelated business income tax or other excise taxes applicable to private foundations. This approach seems reasonable since over 98 percent of foundation 990PF returns and 99 percent of 990AR returns are complete for tax administration purposes after service center correspondence.

IRS DOES LITTLE TO OBTAIN FOUNDATION COMPLIANCE WITH PUBLIC INFORMATION REPORTING REQUIREMENTS

In contrast to IRS' efforts to obtain compliance with 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 on public information items 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. As a result, IRS' lack of attention to public information reporting helps to perpetuate the problem of incomplete reporting by private foundations. As discussed later in this report on pages 42 to 47, we believe that IRS, at limited additional costs, could adopt a compliance approach to greatly increase the information available to the public.

IRS seldom corresponds for missing public information items

Although foundation returns frequently do not report all public information, IRS seldom corresponds to obtain the information. Of the 16 990AR and 3 990PF required public information reporting items identified in chapter 2, 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 infrequently corresponded on the estimated 6,100 990PF returns with incomplete manager information filed at the 3 service centers. We analyzed correspondence for an estimated 1,260 990PF returns for which the three service centers had corresponded for missing information of any type. Our work indicates that only about .3 percent of the estimated 6,100 990PF returns with missing manager information were followed up on by IRS and requested to provide additional 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 consolidated return (see app. IV) 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 return.

The instructions, however, do not go far enough. As discussed in chapter 2, 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. According to IRS officials, after implementation of these revised correspondence instructions, there was no appreciable increase in service center correspondence. 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 should asset information be omitted.

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 asset holdings as discussed in chapter 2. 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 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 discussed in chapter 2 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 (see p. 4 for discussion) 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 field examination but generally would not be the sole or primary reason for an examination selection. This policy is specifically stated in the instructions for the recently established office correspondence examination program for tax-exempt organizations. This new program, for returns with assets and gross receipts under $100,000, only examines returns by correspondence for incomplete information if at least one additional reason for examining the organization has been identified.

We agree with IRS that all potential noncompliance issues should be considered when selecting private foundations returns for examination. However, considering the severity of the incomplete private foundation public information reporting problem, we believe IRS could give that problem more attention than it presently does during the manual review process.

Examinations frequently overlook incomplete public information reporting

While examining private foundation returns, IRS examiners frequently overlooked missing public information, especially on the 990AR return. However, the Internal Revenue Manual, at least in general terms, requires examiners to assure the completeness of all returns. 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.

IRS examinations of private foundations frequently did not consider manager information on the 990PF return or missing public information 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 foundation 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.

As previously discussed, several sections of the Internal Revenue Manual instruct examiners on how to deal with the problem of incomplete returns. The general manual requirements are discussed on page 29. An April 1982 addition to the manual specified that manager information required on the 990PF return should be considered as part of the scope of the examination. This manual addition should help to assure that IRS examiners consider this aspect of public information reporting during examinations. Specifically, the manual states:

> "When an organization's Form 990, Return of * * * [organization] * * * Exempt from Income Tax, does not contain a schedule showing the names, addresses and compensation of officers, directors or trustees, as required by the form and instructions, it is necessary for the examiner to obtain the information from the organization and attach it to the return. IRC sections 6033 and 6104(b) and Regs. 1.6033-2(a)(2)(2)(ii)(g) and 301.6104-2 require that this information be furnished and be made available to the general public upon request. Until the organization has included the information in its return, it has not met the filing requirement. The examiner's action in soliciting the information and manually associating it with the return does not constitute an alteration of the return. It perfects it. The examiner's action is necessary to ensure that the public's right of access to prescribed information under the tax laws will not be defeated."3/

A third section of the Manual states that an advisory letter should be written at the close of an examination when an incomplete return is found.4/ The use of an advisory letter indicates that incompleteness is a serious violation of the organization's tax-exempt status, since this type of letter is only used when "* * * some aspect of an organization's activities or

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3/Internal Revenue Manual section 7(10)62.24.

4/Internal Revenue Manual section 7(11)31.4.

operations, if enlarged, may jeopardize exempt status." The same section of the manual continues by specifically citing missing officer and director information as cause for issuance of an advisory letter. Accordingly, the Internal Revenue Manual recognizes that complete public information for managers is an important element of an examination.

In contrast to the clear manual instructions concerning complete manager information, IRS has not adopted any specific manual references regarding completeness of grant or investment information. As with the manager information, the grant and investment information is specifically required by the Internal Revenue Code. These requirements were enacted so that the Congress, IRS, and the public can monitor the activities of private foundations. However, neither the Internal Revenue Manual nor IRS' specific examination guidelines for private foundations discuss the completeness of grant or investment information as an examination objective.

We believe that the Internal Revenue Manual should be revised to include the grant and investment public information reporting requirements along the lines of the April 1982 manual revision covering the manager information on the 990PF return. The manual revision should describe the information required, the applicable Internal Revenue Code public disclosure provisions, and examination closing actions warranted if incomplete information is identified. Until the manual is revised, IRS examiners will have no specific guidance for identifying and evaluating the quality and completeness of this aspect of public information reporting. Further, IRS will not have adequate assurance that its examiners are considering these public information reporting requirements when conducting foundation examinations. Completing an examination and not notifying a foundation of a reporting problem provides little stimulus for foundations to improve their public information reporting practices and could perpetuate the filing of incomplete returns in future years.

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 (see p. 33 for discussion). However, these systems have not included data on incomplete reporting for either public information or tax administration information purposes. Thus, IRS management does not have the data it needs to monitor the problem of incomplete reporting. We believe the systems can be easily modified to provide some useful information in this regard.

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-1960s, because efforts to secure foundation compliance with information reporting requirements were hampered by the absence of an effective sanction, IRS sought and obtained congressional enactment of a penalty for use against both late filers and incomplete filers of foundation returns. Since then, IRS has considered four different proposals for implementing the penalty provision. However, because of several concerns about implementing the proposals, IRS has not yet adopted procedures for assessing the penalty against foundations filing incomplete returns.

Penalty for incomplete reporting

In 1965 a Treasury Department report on private foundations recognized that IRS efforts to secure foundation compliance with information reporting requirements were hampered by the absence of an effective sanction against noncompliance. Other than a criminal penalty for the willful failure to file a return--imprisonment not exceeding 1 year and a fine not exceeding $10,000--or the revocation of a foundation's tax-exempt status--another extremely harsh penalty--IRS had no enforcement sanction. To overcome the defect in existing law, the Treasury Department recommended that the law be amended to provide that

> "* * * private foundations which fail, without reasonable cause, to make timely and complete filing of a required information return be subjected to a penalty of $10 for each day to a maximum limit of $5,000."

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 but does not directly include references to incomplete filers as specified in the Treasury proposal. Rather, the provision states:

> "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."5/

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 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 1978.6/

IRS has not used the penalty

Although IRS has considered four proposals for implementing the penalty provision, IRS has not yet established procedures for assessing the penalty for incomplete reporting. IRS has had several concerns about implementing the proposals including (1) the cost of implementation and (2) the redirecting of scarce resources to non-tax revenue generating activities. However, according to IRS' Chief Counsel, the penalty should be assessed

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5/Internal Revenue Code section 6652(d).

6/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).

and proven ineffective before IRS exercises the only other non-criminal sanction authorized by the code--revocation of an organization's tax-exempt status.

Since 1976, IRS' Exempt Organizations Division has developed four proposals to implement the penalty against filers of all incomplete tax-exempt organization returns, including private foundation returns. In its most recent proposal, which does not substantially differ from previous proposals, the division recommended sending a series of up to three letters to obtain complete information. The first letter, sent by the service centers, would allow the organization 60 days to provide the information with no penalty. A second letter, sent by the service centers after 60 days, would state that, if the missing information is not provided within 30 days, a penalty of $10 per day from the due date of the return would be automatically assessed against the organization. Similarly, the Division's proposal also considered assessing the penalty "in appropriate cases" against the organization's manager who fails to provide the information. IRS' Collection Division would then be responsible for collecting the penalty and obtaining completed returns. Further, if an organization did not respond to these letters, it would be referred to the appropriate Exempt Organizations Division district office. The district would, then, in extreme cases, send a third letter initiating action to revoke the organization's tax-exempt status.

IRS has not yet issued procedures for implementing the penalty because of concerns about each of the four proposals. For example, when commenting on the 1978 plan, the Commissioner expressed concern over the cost of the then-current proposal--estimated at about $1.2 million over a 2-year period--considering other exempt organization compliance problems and enforcement alternatives. Similar concerns were expressed to us by Collection Division officials over the most recent proposal. These officials were most concerned about diversion of their limited staff resources to activities which would generate little revenue flow. The Collection Division estimates that to implement the Exempt Organizations Division plan would require about $350,000. At the current ratio of taxes collected per dollar spent in collection activities, that $350,000 could be used to collect about $7 million in unpaid taxes from taxable entities.

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 the
--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.

We agree with the Assistant Commissioner that the Exempt Organizations Division proposal for implementing the penalty may not be the best possible approach. For example, assessing a penalty of up to $5,000 against a small foundation for failure to provide information could, in some cases, eliminate most or all of the funds available for charitable purposes. However, IRS has a responsibility to the public to assure that all required information is reported. As discussed below, we believe IRS 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. Should the penalty prove ineffective in securing foundation compliance, IRS should consider revoking the noncomplying organization's tax-exempt status.

ALTERNATIVE APPROACHES FOR ACHIEVING GREATER FOUNDATION COMPLIANCE AT LITTLE ADDITIONAL COST

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 a size standard, IRS could easily control the maximum amount of correspondence possible during a year. For example, according to IRS' national statistics published in late 1982 covering tax year 1979, foundations filed about 17,300 990PF returns reporting less than $25,000 in revenue, 5,400 reporting between $25,000 and $100,000, and 5,300 reporting revenue in excess of $100,000. By limiting correspondence initially to the largest revenue category, maximum correspondence costs would total about $8,100 if every return were deficient.7/ Further, by considering available service center correspondence statistics, IRS managers could periodically adjust the dollar threshold to control correspondence volume.

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. As discussed on page 34, 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. As discussed below, 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

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7/Cost estimate is based on an IRS developed correspondence cost estimate of $1.53 per return.

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. The absence of such skill at the service centers, in part, influenced IRS' decision not to implement the Exempt Organizations Division incomplete reporting penalty proposal.

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 (see pp. 35 to 37), 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. Accordingly, we believe that IRS should incur the cost of identifying the reporting problems and securing foundation compliance with the reporting requirements during examinations of private foundations.

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 routine 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 Collection Division personnel; 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 using the enforcement sanctions.

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. The Audit Information Management System and future Taxpayer Compliance Measurement Programs (see p. 37 for discussion) could be modified to provide some of this information based on the results of examinations. The service center correspondence statistics, such as those discussed on page 43, could also be used in decisionmaking.

CONCLUSIONS

Considering the public's need for and use of private foundation return information required by the Internal Revenue Code, IRS should be working with foundations to assure they are making full information disclosures on their returns. However, IRS has not actively pursued complete public information reporting by private foundations. Moreover, we believe the substantial difference between the high levels of foundation compliance with the tax administration reporting requirements and the low levels of compliance with the public information reporting requirements stems from IRS' inattention to the public reporting requirements. Because of the apparent inclination of private foundations to comply with the tax administration reporting requirements when advised of specific shortcomings, it seems that actions by IRS to obtain foundation compliance with the public information reporting requirements would also be generally successful. Therefore, increased IRS emphasis on seeking voluntary foundation compliance with the public information reporting requirements is warranted.

Various approaches are available to IRS for securing greater foundation compliance with the public information reporting requirements. However, we believe that by adopting certain changes to the service center correspondence program, the district office system for selecting returns for examination and the examination process itself, the IRS Exempt Organizations Division could better secure foundation compliance without significantly increasing resource demands on the IRS divisions directly involved in the collection of taxes. Furthermore, once an approach is adopted, IRS should 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 it should apply to the problem or whether to modify its approach to the problem. The Audit Information Management System and future Taxpayer Compliance Measurement Programs could be modified to provide this information on the basis of the results of examinations. Also, the service center correspondence statistics could be used in decision-making.

Regardless of the overall approach adopted to secure increased compliance, IRS needs to increase the emphasis given to public information reporting during examinations of private foundations. To accomplish this, IRS 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 grant and investment information, they should have clear instructions specifying the information to be reported and the steps they should take to secure compliance. Without these changes, it is likely that examiners will continue to complete examinations without securing foundation compliance with the reporting requirements. Unless informed of shortcomings, we doubt that foundations would change their reporting practices in future years.

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

RECOMMENDATIONS TO THE COMMISSIONER OF INTERNAL REVENUE

To improve private foundation compliance with the Internal Revenue Code's public information reporting requirements, we recommend that the Commissioner of Internal Revenue adopt a systematic enforcement approach which combines an appropriate mix of increased service center correspondence with selective district office correspondence and examinations to secure better foundation compliance.

We also recommend that the Commissioner

--adopt changes to the Internal Revenue Manual illustrating the (1) public information reporting requirements as an examination objective and (2) responsibility of examiners to secure compliance with those requirements.

--develop the management information needed for monitoring the effectiveness of the overall compliance approach adopted and determining periodically whether any changes to that approach are necessary. In accomplishing this objective, the Commissioner should consider (1) incorporating additional reporting items in the management information system to monitor the amount and types of noncompliance, such as incomplete public information reporting found by examining agents, (2) including incomplete public information reporting as a noncompliance item in future Taxpayer Compliance Measurement Programs, and (3) using service center correspondence statistics.

--establish procedures for assessing the incomplete reporting penalty in those instances when IRS, through its overall approach, is unable to secure a foundation's voluntary compliance with tax administration or public information reporting requirements and for revoking a foundation's tax-exempt status when necessary.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of this report, the Acting Commissioner of Internal Revenue, in a May 2, 1983, letter said that IRS agrees with and is acting on our recommendations by:

--continuing development of a systematic enforcement program which emphasizes service center correspondence and obtaining further data through examinations,

--modifying the Internal Revenue Manual to elaborate upon the information required and examiner's responsibilities in determining compliance with the filing requirements,

--highlighting return reporting requirements in IRS' continuing education program,

--including in the management information system data to monitor the amounts and types of noncompliance from incomplete reporting, and

--continuing development of procedures to assess penalties against organizations that do not file a complete return with emphasis on securing information rather than assessing penalties.

The Commissioner also stated in his letter, however, that IRS does not make any distinction between a tax administration reporting item and a public information reporting item; rather, IRS views tax administration items as embracing all return line items. We do not disagree with this view. As stated previously, we made this distinction only to facilitate our analysis and discussion of IRS' administration of the private foundation reporting requirements. In doing this, we found that, in practice, IRS gave more attention to enforcing reporting requirements needed to administer and compute taxes than to those more related to public information purposes. IRS' comments are included in appendix VII.

Subsequently, on May 18, 1983, IRS announced that it had also established an advisory committee on tax-exempt organization public reporting to further increase coordination with foundations and other tax-exempt organizations. The panel will advise IRS on revisions to the reporting forms and instructions and make its own recommendations for form and instruction changes. The committee membership will include representatives of parties having significant interest in the information reporting of tax-exempt organizations.

In a letter dated May 26, 1983, the Council on Foundations commented that, while it supports our recommendations, it questions whether our report fully considers that incomplete reporting arises from a good faith misunderstanding by private foundations of the information required--not from an unwillingness on the part of private foundations to provide the information. The Council believes that clearer return instructions, with IRS followup, would assure that private foundations properly report the required information.

We agree that private foundations appear willing to provide data required by IRS and are responsive to requests from IRS when advised of specific reporting shortcomings. As discussed on pages 42 to 45, our alternative approaches for achieving foundation compliance emphasize the willingness of foundations to respond to requests for tax administration information from IRS and our belief that IRS should have similar success when requesting additional public information.

Regarding the Council's concern about the lack of clarity of IRS forms and instructions, we discuss on pages 37 to 39, the point that IRS' management information systems and compliance measurement programs have not monitored noncompliance with public information reporting requirements. Consequently, IRS managers lacked information for modifying existing activities, such as development of return forms and instructions. IRS is now taking actions, as we recommended, to improve these information systems.

These actions will supplement IRS' past efforts to assure that private foundation returns and instructions are clear. These efforts have included coordinating form development with the foundation community and grant seekers, and since 1975, including a detailed example of a properly completed private foundation return in the instructions. Moreover, the example and accompanying instructions covered all the public information reporting requirements we reviewed. Therefore, the foundations had the same model to follow in determining what information should be reported.

The Council states in its comments (see p. 92) that IRS has done an excellent job in designing the 990PF return and has worked closely with the foundation community to improve the form. These actions, accompanied by IRS' establishment of an advisory committee to comment on tax-exempt organizations reporting forms and instructions, should improve the quality of private foundation reporting.

U.S. GENERAL ACCOUNTING OFFICE METHODOLOGY FOR SELECTING AND ANALYZING 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 and processed during 1981 at the Andover, Brookhaven, and Kansas City Service Centers.1/ 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 and were returned to the service centers for processing and storage. 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 and 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.

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 900AR return and because of the manner in which returns selected for examination were processed and stored.

To also 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. As discussed in chapter 1, 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.

Data analysis

To properly assess foundation compliance with the information reporting requirements, we distinguished in our analysis among "full," "partial," and "no" information disclosure by private foundations for four public information reporting requirements--manager information, paid grant, future grant, and investment information. 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 return was credited as providing partial information.

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

While the majority of our analysis was straightforward in that required information was either present or missing, the collection and analysis of certain grant and investment information required some professional judgment. As discussed in chapter 3, the IRS manual does not discuss criteria to identify whether foundations report grant purposes or describe investments with sufficient specificity to meet the Code's reporting requirements. Accordingly, we used our judgment as described in the following two sections to identify whether the returns reported the information required. In the majority of cases reviewed, the grant and investment information was either fully and correctly reported or not provided at all.

Grant purpose descriptions

Our analysis involved judgments in determining whether the 990AR returns listed grant descriptions with sufficient specificity. 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 help grant seekers to decide whether to apply for grants. The official guidance to foundations for completing a "concise statement" listing was contained in the

IRS instruction booklet for completing the 990AR. The booklet provided the following example as to the degree of specificity required. According to IRS officials, the example better depicted the specificity of the information to be reported than could otherwise be described in a text discussion.

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 Allen Reid Museum of Fine Arts, Atlanta, GA	N/A	Private op. fdn	Renovating museum	15,000
Moore-Price Clinic, College Pk, GA	N/A	Public	To buy equipment	15,000
Ervin Guinn Inste., Stone Mtn., GA	N/A	Public	To buy library mtls.	10,000
Blue Circle of America, Wash., DC	N/A	Public	Disaster relief	3,000
American Frontier Scouts, Chgo., IL	N/A	Public	To build campground	2,000

The short, clear, detailed statements of grant purposes in the IRS example are substantially different from those provided by foundations. Foundations typically either omit grant purpose descriptions entirely or list grants under broad titles which are 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 non-exempt 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.

Security and other asset descriptions

Our analysis also involved judgments in determining whether the 990AR returns listed the securities and other assets with sufficient specificity. 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 was contained in the IRS instruction booklet for completing the 990AR. The booklet provided 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	Nonspecific
324 Main Street, Anytown, Illinois	Specific
Real Estate (land)	Nonspecific
$10,000 "A" Corp. deb. @ 7-5/8% due 2003	Specific
Bonds	Nonspecific

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 this report, 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. (See p. 13.)

--The percentage of 990AR returns which did not report complete information on grants paid during the year. (See p. 14.)

--The percentage of 990AR returns which did not report complete information on grants approved for future payment. (See p 14.)

--The percentage of 990AR returns which did not report complete information on foundation investments. (See p. 17.)

--The extent to which the 990PF returns omitted information on the public information reporting requirements pertaining to managers. (See p. 20.)

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. The results of these tests are cited in the report on pages 22 and 34, respectively. Other data cited in this report are expressed as weighted percentages.

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 | **Employer identification number**

Address (number and street) | If the foundation is in a 60-month termination under section 507(b)(1)(B) check here ▶ ☐

City or town, State, and ZIP code | 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

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) is based on all information of which the preparer has any knowledge.

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

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

313-057 51-0237640

Form 990-PF (1980) Page 2

Part III Balance Sheets

Assets	Beginning of tax year (A) Amount	Beginning of tax year (B) Total	End of tax year (C) Amount	End of tax year (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	

APPENDIX II

Form 990-PF (1980) Page 3

Part V Statements Regarding Activities

File 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.*

APPENDIX II

Form 990-PF (1980) Page 4

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 ▶				

APPENDIX II

Form 990–PF (1980) Page 5

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.)
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 }

313-057 52-0237640

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	

APPENDIX II

Form 990-PF (1980) Page 7

Part XI 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				

313-087 52-0237640

APPENDIX II

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 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 .					

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 APPENDIX III

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

Form 990-AR (1980) Page 2

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.

APPENDIX III

Form 990-AR (1980) Page 3

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 ▶		

Form 990-AR (1980) Page 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	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—313-054 E I #52 1074467

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

Address (number and street)

City or town, State, and ZIP code

Employer identification number

State registration number (see instructions)

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.

Form 990-PF (1981) Page 2

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?		

APPENDIX IV

Form 990-PF (1981) Page 3

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?		

Form 990-PF (1981) Page 4

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 ▶		

APPENDIX IV

Form 990-PF (1981) Page 5

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			
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)

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 . . . . .

APPENDIX IV

Form 990-PF (1981) Page 6

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 . . .				

Form 990-PF (1981) Page 7

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.

Form 990-PF (1981) Page 8

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. GOVERNMENT PRINTING OFFICE : 1981—O-343-053

ANALYSIS OF COMPLETE AND INCOMPLETE 990AR PUBLIC INFORMATION RETURNS FILED BY PRIVATE FOUNDATIONS AT THREE IRS SERVICE CENTERS ACCORDING TO REVENUES, GRANTS, AND ASSETS REPORTED

Revenue Reported ($)	Estimated Number of 990AR Returns	Percentage of 990AR Returns Complete	Incomplete	TOTAL
0	240	21	78	100
1 - 24,999	5290	7	92	100
25,000- 49,999	850	4	95	100
50,000- 99,999	1080	4	96	100
100,000-499,999	2160	2	98	100
500,000-999,999	390	7	93	100
1,000,000 & over	290	5	94	100
Overall	10,300	6	94	100

Grants Reported ($)	Estimated Number of 990AR Returns	Complete	Incomplete	TOTAL
0	960	37	63	100
1 - 24,999	5190	4	96	100
25,000 - 49,999	1100	0	100	100
50,000 - 99,999	1290	7	93	100
100,000 -499,999	1200	2	98	100
500,000 -999,999	170	12	88	100
1,000,000 & over	200	8	92	100
Overall	10,110	7	93	100

Assets Reported ($)	Estimated Number of 990AR Returns	Complete	Incomplete	TOTAL
0	180	12	88	100
1 - 24,999	2620	6	94	100
25,000 - 49,999	810	14	86	100
50,000 - 99,999	1190	17	83	100
100,000 - 499,999	3340	3	97	100
500,000 - 999,999	1080	2	98	100
1,000,000 & over	1520	8	92	100
Overall	10,740	7	93	100

Note: Because all sampled returns did not report all financial information and due to limitations of service center files, these tables do not project to the estimated 10,930 990AR returns filed at the service centers. Accordingly, each table shows the number of returns to which our sample results could be projected. Percentage totals may not add due to rounding.

ANALYSIS OF COMPLETE AND INCOMPLETE 990PF PUBLIC INFORMATION RETURNS FILED BY PRIVATE FOUNDATIONS AT THREE IRS SERVICE CENTERS ACCORDING TO REVENUES, GRANTS, AND ASSETS REPORTED

Revenue Reported ($)	Estimated Number of 990PF Returns	Percentage of 990PF Returns Complete	Incomplete	TOTAL
0	950	40	60	100
1 - 24,999	8070	58	42	100
25,000- 49,999	1120	70	30	100
50,000- 99,999	1370	58	41	100
100,000-499,999	2510	63	37	100
500,000-999,999	420	54	46	100
1,000,000 & over	330	76	23	100
Overall	14,770	59	41	100
Grants Reported ($)				
0	2200	61	39	100
1 - 24,999	7310	57	43	100
25,000 - 49,999	1380	58	42	100
50,000 - 99,999	1440	62	38	100
100,000 -499,999	1240	66	34	100
500,000 -999,999	190	88	12	100
1,000,000 & over	210	78	22	100
Overall	13,970	60	40	100
Assets Reported ($)				
0	460	43	57	100
1 - 24,999	4670	54	46	100
25,000 - 49,999	1170	62	38	100
50,000 - 99,999	1420	66	34	100
100,000 - 499,999	4040	64	36	100
500,000 - 999,999	1310	48	52	100
1,000,000 & over	1690	70	30	100
Overall	14,760	59	41	100

Note: Because all sampled returns did not report all financial information and due to limitations of service center files, these tables do not project to the estimated 14,860 990PF returns filed at the service centers. Accordingly, each table shows the number of returns to which our sample results could be projected. Percentage totals may not add due to rounding.

COMMISSIONER OF INTERNAL REVENUE
Washington, DC 20224

MAY 2 1983

Mr. William J. Anderson
Director, General Government Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Anderson:

I appreciate the opportunity to review your draft report entitled, "Public Information Reporting by Tax-Exempt Private Foundations Needs More Attention by IRS." In general, we agree with your report recommendations. I have enclosed our specific comments on each recommendation.

With kind regards,

Sincerely,

Acting Commissioner

Department of the Treasury Internal Revenue Service

IRS COMMENTS ON GAO RECOMMENDATIONS IN DRAFT REPORT ENTITLED "PUBLIC INFORMATION REPORTING BY TAX-EXEMPT PRIVATE FOUNDATIONS NEEDS MORE ATTENTION BY IRS"

Page 47, General

To improve private foundation compliance with the Internal Revenue Code's public information reporting requirements, we recommend that the Commissioner of Internal Revenue adopt a systematic enforcement approach which combines an appropriate mix of increased service center correspondence with selective district office correspondence and examinations to secure better foundation compliance.

Comments

The Service is cognizant of its responsibility for the administration of the Internal Revenue Code's exemption provisions and we feel we have effectively executed our responsibility within our budgetary constraints. The Service does not make any distinction between return information as being a "tax administration reporting item" or a "public oversight and disclosure reporting item". We view tax administration items as embracing all return line items.

We are in agreement with your recommendations. In fact, we have developed programs consistent with the recommendations discussed within the report. The major emphasis of our program is directed to perfecting returns by the service centers. Thus improved data will be available for public inspection and compilation. In addition we will continue to obtain missing return information during examinations and at the same time emphasize the requirement to file a complete return.

We will continue to obtain any information brought to our attention thru a public inspection request as required but missing from the return. Additionally, we will continue to work closely with those organizations that gather information and data for public use.

IRS COMMENTS ON GAO RECOMMENDATIONS IN DRAFT REPORT ENTITLED "PUBLIC INFORMATION REPORTING BY TAX-EXEMPT PRIVATE FOUNDATIONS NEEDS MORE ATTENTION BY IRS"

Page 47, Recommendation 1

We recommend that the Commissioner adopt changes to the Internal Revenue Manual to better define the (1) information required to be reported by private foundations, and (2) responsibility of IRS examiners to secure compliance with these requirements.

Comments

We agree with this recommendation and have begun the task of determining the specific sections of the Internal Revenue Manual (IRM) which need modification. Our planned changes will elaborate upon the information required to be reported by organizations. We will amplify the IRM provisions relating to the examiners responsiblity in determining compliance with filing requirements.

We will include in our Continuing Professional Education (CPE) program a segment devoted to return information reporting requirements and the examiners responsibility in determining such compliance.

IRS COMMENTS ON GAO RECOMMENDATIONS IN DRAFT REPORT ENTITLED "PUBLIC INFORMATION REPORTING BY TAX-EXEMPT PRIVATE FOUNDATIONS NEEDS MORE ATTENTION BY IRS"

Page 47, Recommendation 2

We recommend that the Commissioner develop the management information needed for monitoring the effectiveness of the overall compliance approach adopted and determining periodically whether any changes to that approach are necessary. In accomplishing this objective, the Commissioner should consider (1) incorporating additional reporting items in the management information system to monitor the amount and types of noncompliance, such as incomplete public information reporting found by examining agents (2) including incomplete public information on reporting as a noncompliance item in future Taxpayer Compliance Measurement Programs, and (3) using service center correspondence statistics.

Comments

Although we now capture some management information we agree that we need more information to monitor the degree of noncompliance with return filing requirements. We plan to incorporate items into our management information systems regarding amounts and types of noncompliance.

IRS COMMENTS ON GAO RECOMMENDATIONS IN DRAFT REPORT ENTITLED "PUBLIC INFORMATION REPORTING BY TAX-EXEMPT PRIVATE FOUNDATIONS NEEDS MORE ATTENTION BY IRS"

Page 47, Recommendation 3

We recommend that the Commissioner establish procedures for assessing the incomplete reporting penalty in those instances when IRS, through its overall approach, is unable to secure a foundation's voluntary compliance with tax administration or public information reporting requirements and for revoking a foundation's tax-exempt status when necessary.

Comments

We agree with this recommendation as it involves the very essence of a program we have had under development for some time. The basis of this program will be directed to securing any missing information rather than assessing penalties against organizations that do not file a complete return.

Every opportunity will be provided for organizations to furnish the missing information. Only after all efforts fail will we resort to assessing the penalty and consider revoking the organization's tax-exempt status. In all instances, the organizations will be accorded all administrative appeals.

GAO note: Page numbers have been changed to reflect their position in the final report.

COUNCIL ON FOUNDATIONS
1828 L STREET NW WASHINGTON, DC 20036 (202)466-6512

May 26, 1983

Mr. Johnny C. Finch
Associate Director
General Government Division
General Accounting Office
441 G Street, N.W.
Room 3866
Washington, D.C. 20548

Re: Draft Report on "Public Information Reporting by Private Foundations."

Dear Mr. Finch:

I enclose a copy of the comments of the Council on Foundations on the draft GAO report which was the subject of hearings before the Commerce, Consumer and Monetary Affairs Subcommittee of the House Government Operations Committee on May 11.

As I said in my testimony, the Council strongly supports full and informative communication and reporting by foundations to the interested public, both through tax returns and through extensive voluntary efforts going well beyond legal requirements, e.g., through the Foundation Center. Therefore, we support the study's recommendations.

We are, however, concerned that the draft report fails fully to reflect two basic points shown by the study:

(1) The very high levels of complete reporting on so-called "tax administration" items means that foundations are providing the information needed to ensure that they are operating in accord with the detailed Congressional rules that apply to them. These include making specified annual distributions for charitable purposes, avoiding prohibited self-dealing transactions with related parties, confining stock holdings in individual companies within narrowly defined limits, avoiding investments which jeopardize charitable purposes, and complying with detailed substantive and procedural rules for foundation programs, such as maintaining expenditure responsibility, following IRS-approved procedures for individual grant or scholarship programs, and avoiding intervention in partisan politics.

(2) In the "public information" area, where the study found lower compliance, the text overlooks what appears clearly from analysis of the particular items on which the study gave low scores -- that any problems arise from good faith misunderstanding of what information is required, not an unwillingness to provide information. As explained in our detailed comments, the reporting problems identified are the result of such things as a foundation with no "grants approved for future payment" leaving the relevant spaces blank rather than writing in "none", or a belief (encouraged by the heading on the form) that information on foundation managers was to be provided only if they were paid for their services.

There is every reason to believe that with clearer instructions and attention to these entries in IRS follow-up, foundations will provide this sort of information in whatever form is desired. That this is so is suggested by the very high level of complete information (over 90%) in other at least equally important public information categories (e.g., lists of grants paid and of assets held), as well as by the near-universal very high scores on the tax administration items.

I hope it will be possible for the final version of the report to reflect these comments.

In any event, I understand that many GAO reports include comments from private parties as well as IRS, and I request that a copy of the Council's comments be so included in the final report.

Sincerely yours,

James A. Joseph

James A. Joseph
President

cc: Walter B. Slocombe

Enclosure

ANALYSIS OF GAO STUDY

OF

PRIVATE FOUNDATION INFORMATION REPORTING

Attachment to Testimony of James A. Joseph, President

Council on Foundations

May 11, 1983

Hearings before:

House Subcommittee on Commerce, Consumer
and Monetary Affairs

Committee on Government Operations

Room 2203
Rayburn House Office Building
9:30 a.m.

ANALYSIS OF GAO STUDY OF PRIVATE FOUNDATION INFORMATION REPORTING

Summary

1. The two central findings of the GAO Study -- (1) that virtually all foundations provide all the "tax administration" information IRS considers necessary to enforce the comprehensive legal restrictions on foundations, and (2) that IRS could achieve comparable levels of "public information" reporting through modest additional enforcement efforts -- underscore the concerted effort of foundations to comply with applicable legal requirements and to use their resources strictly in the public interest.

2. By devoting only a very small fraction of its study to "tax administration reporting" -- reporting of information IRS requires to enforce the private foundation provisions of the Internal Revenue Code -- and the balance of the study to "public reporting" -- additional information of interest to grant-seekers -- the GAO report creates a serious misimpression as to the relative importance of these two types of reporting requirements. The "tax rules" applicable to private foundations in fact comprise a comprehensive regulatory framework governing every aspect of foundation philanthropy. These detailed substantive restrictions were specifically fashioned by Congress in 1969 to constitute the primary safeguard against foundation misconduct. Thus, GAO's finding that virtually all foundations are providing 100 percent of the required tax administration information means that foundations are providing IRS and the public with the information needed to ensure that foundations operate in the public interest.

3. GAO's findings show that notwithstanding the lack of any IRS effort to enforce the public reporting requirements, virtually all foundations provided complete responses to almost half of the public reporting items surveyed. This fact suggests that the lower compliance rates for the remaining public reporting items arise, in large part, from the failure of the IRS return forms and instructions to make clear precisely what information constitutes an acceptable response. Analysis of the specific public reporting items in question supports this conclusion; in virtually every case the return forms and instructions fail to specify clearly the information required. Thus, while the enforcement efforts GAO recommends should be part of an overall effort to improve public information reporting, clarifying the return forms and instructions is a cost-effective alternative which should be given top priority.

ANALYSIS

The GAO Study: An Overview

The Internal Revenue Code imposes detailed annual reporting requirements on private foundations. For taxable years prior to 1981 -- including 1980, the principal year considered by the GAO study -- foundations were required to file annually with the IRS an information return (Form 990-PF), and an annual report (Form 990-AR). Grant-seekers and other members of the public could obtain copies of both forms from the IRS, and were entitled to inspect foundations' Forms 990-AR at the foundations' offices.[1]

The objectives of the GAO study were to "(1) determine the extent and nature of incomplete foundation returns, and (2) evaluate IRS efforts to obtain complete returns." GAO Study, 8. The GAO study focuses on two basic categories of information -- "tax administration reporting requirements" and "public information reporting requirements."

GAO describes the "tax administration reporting requirements" as "the information IRS considers necessary for tax computation and enforcement purposes." GAO Study, 11. While the study does not provide further details, this information includes at least key entries in Parts III, V, VII, VIII, IX, X, and XI of Form 990-PF

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1. In 1981, the Form 990-AR was consolidated into the 990-PF so that foundations are now required to file only a single return. In 1982, the IRS expanded the Form 990-PF to include additional questions concerning foundations' grant policies and procedures.

-- which include over 100 separate line items directly relevant to foundation compliance with the private foundation provisions of the Internal Revenue Code.

To evaluate "public information reporting," GAO examined 19 additional items: three items from the Form 990-PF dealing with "foundation managers," and 16 items from the Form 990-AR, including information concerning grants paid by the foundation during the taxable year (5 items), grants approved for future payment (5 items), and foundation investments (6 items).

High Foundation Compliance With Tax Administration Reporting Requirements

The GAO study reports that 92 percent of all foundation returns, when originally filed with the IRS, provide 100 percent of the tax administration information IRS considers necessary for enforcement of the private foundation provisions of the Internal Revenue Code. Following a routine IRS request to those foundations whose returns are not complete, the proportion of foundations providing all tax administration information rises to 98 percent.

While reporting these compliance rates, the GAO study does not place them in proper perspective. Because only five pages of the 50-page draft deal with these tax administration reporting requirements, the reader is left with the clear impression that the tax administration information is relatively unimportant. The obvious inference is that this information is relevant only for "tax purposes" and has little bearing on the conduct of foundations' philanthropic activities.

The facts are precisely contrary. The "tax rules" to which this tax administration information pertain are not concerned merely with foundations' financial performance. Instead, they comprise a comprehensive regulatory framework governing all aspects of foundation philanthropy. For example, these rules require all foundations to make specified annual distributions for charitable purposes, impose prohibitions on "self-dealing" transactions with related parties, business holdings in excess of narrowly defined limits, and investments which jeopardize foundations' charitable purposes, and establish various restrictions on foundations' programmatic activities. Enactment of these rules in 1969 reflected a Congressional judgment that the primary safeguard against foundation misconduct should be comprehensive legal restrictions actively enforced by the IRS.

Placed in this perspective, the true significance of the GAO findings is clear. Tax administration reporting information is central to IRS and public oversight of foundation philanthropy, and is of relatively far greater importance for this purpose than the public reporting information on which the GAO study concentrates. Accordingly, the fact that virtually all foundations are supplying 100 percent of this tax administration information means that foundations are providing the information required to ensure that they are operating in the public interest.

GAO note: Our analyses of private foundation returns were balanced between public information reporting requirements and tax administration reporting requirements--all mandated by law (see p. 27). Furthermore, considering the public's need for and use of the public information reported by foundations (see pp. 5, 6, 15, 18, and 21) in conjunction with the requirements of law, we do not agree with the Council's position that the public information reporting requirements are less important than other reporting requirements.

- 5 -

Foundation Compliance With Public Information Reporting Requirements

In contrast to the extremely high level of compliance with the tax administration reporting requirements, GAO found what it terms "a major compliance problem" with regard to public information reporting. GAO reports that "94 percent of the 990-AR returns did not completely respond to certain public information reporting items, [and] about 70 percent of the 990-AR returns did not provide complete information on 25 percent or more of the reporting items GAO reviewed." GAO study, iii. More specifically, GAO found compliance rates between 92 percent and 98 percent for 8 of the 19 public information items surveyed, but compliance rates between 28 percent and 72 percent for the remaining 11 items.

The GAO study notes that whereas IRS routinely requests foundations to supply omitted tax administration information and emphasizes compliance with these requirements in its audit program, IRS has historically made no comparable effort to obtain public reporting information. Concluding that this difference in enforcement policy explains the substantial difference in overall compliance rates for tax administration reporting and public information reporting, GAO recommends increased IRS efforts to enforce the public information requirements.

This analysis appears to overlook the correct explanation of the problems with public information reporting -- legitimate misunderstanding of what information is required. GAO's data show that even in the absence of any IRS enforcement effort virtually all

foundations provide substantial public reporting information; the compliance rate for almost half of the items surveyed was 92 percent or greater. There is no material difference between these items and those for which compliance rates were lower. Thus, for example, there is no obvious reason why a foundation should be willing to provide an itemized list of grants paid during the year (93 percent compliance rate) but not of grants approved for future payment (33 percent compliance rate).

These facts suggest that the correct explanation of the lower compliance rates for some public reporting items has more to do with the way in which the information is requested than with either foundations' willingness to disclose information or the extent of IRS enforcement efforts.

The IRS has, on the whole, done an excellent job in designing the Form 990-PF to obtain the diverse information required to enforce the complex, and frequently amended, private foundation rules. The Service has worked closely with the foundation community, grant-seekers, and state officials to improve the form and expand the information provided. However, analysis of the 11 public reporting items for which GAO found substantial noncompliance indicates that in virtually every case the way in which the information is requested on the IRS return form and explained (or not explained) in the accompanying instructions leaves considerable room for confusion and good faith disagreement about precisely what information constitutes an acceptable response. A brief review of the items in questions

- 7 -

will demonstrate both the nature of the problem and the substantial scope for clarifying the applicable portions of the return.

GAO note: As discussed in the following five notes, instructions to the 990PF and 990AR returns contained detailed information on completing the reporting requirements we reviewed. In fact, since 1975, IRS has included a detailed example of a properly completed set of private foundation returns as part of the instruction package. Therefore, foundations have had a model to follow in determining what information should be reported. Also, the Council states that, IRS, on the whole, has done an excellent job in designing the 990PF return and has worked closely with the foundation community to improve the form.

Grants Approved For Future Payment

Five of the eleven public reporting items for which GAO found low compliance rates -- almost half -- involved information on grants approved for future payment. Indeed, since GAO found that 60 percent of all foundations provided no information on any of these five items, these items alone largely account for GAO's finding that 71 percent of all foundations failed to complete at least four of the public reporting items.

<u>The low measured compliance rate for these items almost certainly reflects the failure of foundations which had approved no such grants to indicate "none" or "n/a" on their returns, rather than a failure to disclose grants which had been approved for future payment</u>. As a practical matter, most foundations, particularly small foundations, routinely pay grants in single installments immediately following approval by the foundation board. These foundations thus have no grants approved for future payment, and, apparently, many simply leave this portion of the return blank.

GAO is correct that the failure of these foundations to insert "none" or "n/a" violates a technical tax law requirement (which, incidentally, applies to individual and corporate tax returns as well, where, one suspects, the compliance rate is at least as low). However, this requirement is apparent neither from the face

of the return nor the accompanying instructions.[2] Thus, a foundation making a good faith effort to provide required public reporting information could reasonably conclude that it could properly leave this portion of the return blank if it had approved no grants for future payment.

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2. The applicable portion of the Form 990-AR simply provides a space for information on grants approved for future payment; it does not state that a foundation should affirmatively indicate if no such grants have been approved. Moreover, neither the instructions for the Form 990-AR nor the sample return for a hypothetical foundation included in the instruction package address this question. The only reference to the general requirement is found in the general instructions for the Form 990-PF. And even this reference is more in the nature of a polite suggestion than a clearly stated legal requirement. The relevant portion of the instructions reads as follows:

> The penalty of $10 a day may also be charged if you file an incomplete return. Please be sure to make an entry in each part of the form, even the ones that do not apply to you. If a part of line item does not apply, enter -0- or "N/A" (not applicable). See Rev. Rul. 77-162, 1977-1 C.B. 400 for details.

GAO note: As acknowledged by the Council, page one of the return instructions tells foundations what to do if any portion of the return is not applicable. These instructions are printed in bold type and state that a penalty of $10 per day may be charged if an entry is not made on all parts of the return. More importantly, the omission of such entries is not merely a "technical" omission. Unless "none" or "n/a" are entered on the return, the reader does not know whether a foundation did not report the information or whether there was no information to report. Thus, the return is not as useful as it should be for grant seeking or public oversight purposes.

Information on Foundation Managers

The failure of roughly 30 percent of foundations to provide any information in response to the three questions on foundation managers apparently reflects a similar confusion. Representatives of the Council on Foundations, the Foundation Center, and GAO have suggested that many foundations have been under the misimpression that they are required to complete this portion of the return only if their foundation managers are compensated. The Form 990-PF contributes to this confusion; the items pertaining to foundation managers appear under the general heading, "Statement Regarding Contributors, Compensation, etc." and the subheading, "Officers, directors, trustees, foundation managers and their compensation, if any, for 1980." (Emphasis added.) IRS apparently concurs in this explanation, as reflected by the fact that while the instructions which accompanied the 1980 Form 990-PF did not address this point, the 1982 instructions explicitly state that "[a]ll [foundation managers] must be listed whether or not they receive any compensation from the foundation."

GAO note: Foundations should not have been under the "misimpression" that they were required to complete this portion of the return only if managers are compensated. The instructions have contained a detailed example of how to fill out this section of the return. The example clearly shows that information on officers and directors is to be reported regardless of compensation arrangements. While the recent revision to the instruction may have further clarified that requirement, the previous instructions adequately described the information required.

Description of Assets

Of the six public reporting items pertaining to foundation assets, GAO found 96 percent to 99 percent compliance for five items but only a 72 percent compliance rate for the remaining item -- the requirement that foundations provide a complete description of their assets. This anomalous result can hardly be explained in terms of IRS enforcement policy; a far more plausible explanation is the absence of clear guidelines as to the degree of specificity required in describing foundation assets.

The only IRS guidance on this point is provided by the example on the sample return contained in the IRS instruction booklet, which, according to IRS officials, "better depicts the specificity of the information to be reported than would narrative in the instruction booklet text." GAO Study, 54. This example provides an itemized description of the hypothetical foundation's stock holdings. On the other hand, 75 percent of the assets of the IRS's hypothetical

- 10 -

foundation are listed on a single line item labeled simply "certificates of deposit," and the example lists other aggregate line items for "office equipment" and "cash."

Clearly, this example provides no concrete guidance as to which categories of assets can be aggregated for reporting purposes and which cannot. Lacking such a general rule, or more comprehensive examples, both foundations, in completing their returns, and GAO, in evaluating those returns, were forced to make essentially ad hoc judgments with respect to the degree of specificity required for particular assets. It is hardly surprising that, as reflected by GAO's findings, these judgments did not always agree.

GAO note: As shown on page 54, the return instructions contained specific examples to provide guidance to foundations for reporting their assets. According to IRS officials, these examples better illustrate the information required than a text discussion. Using these examples as criteria, GAO evaluated the specificity of asset descriptions in an objective and consistent manner (see pp. 54 to 55 for details). The results of this work indicate that the instructions were sufficiently clear for most foundations. About 72 percent of all foundations reported all their assets with sufficient specificity. Further, as shown on page 19, about two thirds of the remaining foundations reported most of their assets with sufficient specificity. Accordingly, the instruction example does provide substantive guidance on how foundations are to report and should not be blamed as the cause for some foundations providing little or no detail on their investment practices.

Description of Grant Purposes

GAO found that only 40% of foundations provided what GAO considered an adequate description of the purposes of the foundations' grants. Again, good faith confusion about the information requested and a degree of arbitrariness in GAO's evaluation criteria would seem to account for much of the measured noncompliance. Many foundations, particularly small foundations, make only general purpose grants rather than grants for specific projects or facilities of the grantees. It is not clear from the Form 990-AR or the instructions that any description is required for such general purpose grants. Moreover, even if a foundation concludes that a description is required, neither the return nor the instructions indicates whether the foundation should describe the grant purpose as simply "general purpose" or, instead, should describe the general charitable purpose of the grantee, e.g., listing "educational" as the purpose of an unrestricted grant to a local college. While in many cases the latter alternative provides more useful information, GAO considered only the former an acceptable description for general purpose grants. GAO Study, 53. As a result, GAO's findings do not accurately reflect the number of foundations which make a good faith effort to comply with this reporting requirement.

GAO note: As shown on page 53, the return instructions contained specific examples to provide guidance to foundations for reporting the purposes of their grants. According to IRS officials, these examples better illustrate the information required than a text discussion. Using these examples as criteria, GAO evaluated the completeness of grant descriptions in an objective and consistent manner (see pp. 52 to 54 for details). The results of this work showed that 40 percent of the foundations fully described all their grants while 54 percent did not fully describe any of their grants. In general, the reporting was incomplete because foundations either omitted grant purposes entirely or listed their grants under broad titles such as "educational" or "charitable"--descriptions which are substantially different than the short, clear, detailed statements of grant purpose in the IRS examples. These reporting practices resulted in returns which were sufficiently different from the guidance provided by IRS to minimize the need for us to make subjective judgments as to the adequacy of the information reported.

List of Grantees' Addresses

The final public reporting item -- the requirement to list grantees' addresses -- is the only item for which a low compliance rate cannot be readily explained by lack of clarity in the information request. Here too, however, GAO's evaluation criteria result in an understatement of the number of foundations providing the desired information. As indicated by the IRS instructions, foundations are not required to provide a complete mailing address for grantees, but rather only the city and state in which the grantee is located. While in many cases this information is apparent from the grantee's name alone, as, for example, with grants to "Harvard University" or the "Fort Wayne United Way," GAO treated a foundation as having failed to provide the required information if it did not report "Harvard University, Cambridge, Ma." or "Fort Wayne United Way, Fort Wayne, Ind."

GAO note: Contrary to the Council's suggestion, neither the law nor the return instructions exempt "well known" institutions from the requirement to report an address for each grantee. Further, we believe that it would be virtually impossible to prepare a comprehensive list of institutions which would be "well known" to everyone. Consequently, we considered this reporting item to be incomplete if a city and state were not provided. Even so, our analysis showed that, in general, foundations which omitted addresses did not omit just one or two addresses, or just the addresses of "well known" institutions--they omitted all addresses.

Conclusion

A strong case can be made for GAO's recommendation that IRS increase its efforts to enforce the public information reporting requirements. However, as the preceding analysis makes clear, improving the applicable portions of the Form 990-PF and the accompanying instructions is a cost-effective alternative which can reasonably be expected to produce a substantial increase in foundation compliance with these reporting requirements.

GAO note: We agree that IRS should continually strive to improve the clarity of its forms. Nonetheless, we also believe that IRS, in the past, has taken substantive actions to assure that private foundation returns and instructions are clear. These actions include coordinating form development with the foundation community and grant seekers, and since 1975, including in the instructions a detailed example of a properly completed set of private foundation returns. The Council states in its comments (see p. 92) that IRS has done an excellent job in designing the 990PF return and has worked closely with the foundation community to improve the form. These actions, accompanied by IRS' establishment of an advisory committee to comment on tax-exempt organization reporting forms and instructions, should help to assure high quality return instructions.

However, clear return instructions, standing alone, are not the ultimate answer. IRS, by statute, is responsible for assuring that foundations make complete public information disclosures on their returns and that this information is available to the public. And, as discussed in the body of the report, foundation compliance with certain public information reporting requirements is not good.

Various approaches are available to IRS for securing greater foundation compliance with the public information reporting requirements. However, we believe that by adopting a combined approach involving the service center correspondence program, the district office system for selecting returns for examination, the examination process itself, and the incomplete reporting penalty, IRS would have a systematic series of progressively stronger enforcement actions to better secure foundation compliance. Furthermore, once an approach is adopted, IRS should 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 it should apply to the problem, whether it should modify its approach, and how the return instructions could be further clarified. In essence, the combined approach that we recommend builds upon the system IRS has successfully used to obtain complete tax administration information.

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