



32317

UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT  
DIVISION

MAY 14 1985

B-211258

Mr. S. Allen Winborne  
Assistant Commissioner  
Employee Plans and Exempt  
Organizations  
Internal Revenue Service

Dear Mr. Winborne:

Subject: IRS' Information On Revoked Charitable  
Tax-Exempt Organizations Could Be Improved  
(GAO/GGD-85-36)

During our study of the sanctions available to the Internal Revenue Service (IRS) for enforcing the tax exemption provisions governing charitable organizations, we found that IRS information systems do not contain compatible information on the organizations for which it has revoked the exempt status. Neither of two IRS internal information systems nor its publications on tax-exempt organizations identify or agree on all the organizations that had their charitable tax exemption revoked. We also noted that IRS does not publish the names of organizations entitled to receive tax deductible contributions during judicial appeal of IRS' revocation action.

IRS needs accurate revocation information to effectively (1) administer tax exemption provisions to assure that only qualified organizations retain charitable tax-exempt status and (2) notify the public, on a timely basis, of those organizations that are entitled to receive tax deductible contributions. Because of the importance to the public and IRS of having accurate information on charitable tax-exempt revocations, we are bringing the specifics of this matter to your attention.

BACKGROUND

If an organization meets the criteria established in Internal Revenue Code Section 170, it is entitled to receive tax-exempt contributions which are also tax deductible to the contributor. IRS is responsible for determining whether organizations meet the provisions of the Code and, if not, for denying or revoking tax-exempt status. During 1983, over 25 million

(268180)

033223 / 127973

taxpayers made about \$65 billion in tax deductible contributions to over 300,000 tax-exempt organizations. Annually, from 1979 to 1983, IRS approved tax exemptions for about 27,000 new charitable organizations and revoked about 175 exemptions.

Whenever IRS grants or revokes an organization's charitable tax-exempt status, its procedures call for updating its internal information sources and notifying the public concerning the change. IRS maintains information on revoked charitable tax-exempt organizations in three separate information sources--the Exempt Organizations/Business Master File (EO/BMF), the Internal Revenue Bulletin, and the Audit Information Management System (AIMS). When an organization's charitable tax-exempt status is revoked as a result of an examination, IRS officials are to independently enter the revocation in these three information sources using separate forms.

Information on organizations which are entitled to tax deductible contributions is maintained in the EO/BMF. This national computer information system contains background information describing the exempt organization including, for example, the name, address, status of deductibility of contributions, and asset and income size. To notify the public about organizations which are entitled to receive tax deductible contributions, IRS annually publishes the Cumulative List of Organizations (Publication 78).<sup>1</sup> IRS annually extracts the data for this publication from the EO/BMF. IRS updates Publication 78 by publishing a quarterly supplement, which is also extracted from the EO/BMF, listing organizations newly entitled to receive tax deductible contributions. Publication 78 and its supplements are the official IRS guidance to the public for determining the deductibility of charitable contributions.<sup>2</sup> As tax-exempt organizations are revoked, the status is changed on the EO/BMF and the revoked organizations are eventually deleted from Publication 78.

To immediately notify the public about organizations that are no longer entitled to receive tax deductible contributions because their charitable tax-exempt status has been revoked, IRS publishes a weekly notice in the Internal Revenue Bulletin. This public notice provides the names and locations of revoked organizations and specifies the date after which contributions

---

<sup>1</sup>The list is not all inclusive. Certain governmental or religious organizations are not required to file with the IRS for charitable status. Therefore, they are not listed in Publication 78 but may still be entitled to receive tax deductible contributions.

<sup>2</sup>Rev. Proc. 82-39, 1982-2 C.B. 759.

are generally no longer deductible. Consequently, if the IRS district office officials do not submit the form to publish the name of a revoked organization in the weekly notice, contributions to the organization will generally continue to be deductible until IRS deletes the organization from Publication 78.

IRS also enters revocation information in AIMS. The purpose of this information system is to show the status and, if completed, the results of all IRS examinations including those which result in the revocation of an organization's tax-exempt status.

Revocation information can also be developed from other sources. The Department of Justice's case management information system (CAMIS) maintains information to show the status of charitable tax-exempt revocations under appeal in U.S. District Court or the U.S. Claims Court. The U.S. Tax Court maintains files for those tax-exempt organizations appealing their revocation to that court.

OBJECTIVE, SCOPE,  
AND METHODOLOGY

Our objective was to obtain a complete list of recently revoked organizations. To this end, we obtained from the IRS National Office a list of all organizations shown in IRS' primary internal information system, the EO/BMF, as being revoked between January 1, 1981, and April 1, 1984.

To validate the accuracy of the EO/BMF information, we obtained lists of revoked charitable organizations from four other independently maintained data sources and matched these lists to the EO/BMF list and to each other. From IRS' AIMS files, we could only obtain readily available revocation data for fiscal years 1982 and 1983, thus preventing a match to the 1981 and 1984 EO/BMF files. We also obtained lists from IRS' Internal Revenue Bulletin and the Department of Justice's CAMIS, and identified all charitable tax-exempt revocation cases filed in the U.S. Tax Court from January 1981 to April 1984. Accordingly, by deleting duplicate entries from these information sources, we compiled a single list of revoked organizations.

We discussed the related information systems with the IRS officials responsible for their operation and reviewed the pertinent IRS procedures. We also reviewed applicable laws, regulations, and legislative histories. Our detailed audit work was conducted from May to September 1984 and was performed in accordance with generally accepted government auditing standards.

IRS' INFORMATION ON REVOKED  
CHARITABLE ORGANIZATIONS NEEDS TO  
BE MORE ACCURATE AND CONSISTENT

IRS' management information systems and its publications on tax-exempt organizations do not identify or agree on which organizations have been revoked. IRS officials believe that this situation has resulted from nonadherence to prescribed system input procedures and we tend to agree. To address the problem, IRS officials recently reemphasized to its staff the importance of accurate data entry and established reconciliation procedures to improve the information in the EO/BMF. These are positive steps but do not fully address the other information sources. To improve these information sources, IRS could expand its reconciliation procedures, and monitor the results of the reconciliation process to determine if further corrective action is needed.

IRS' Information Sources on  
Revoked Organizations Do Not  
Contain Complete or Consistent Data

In analyzing information sources of revocation information we found that none of IRS' systems contain a complete listing of revoked organizations. A comparison of data among IRS information sources also showed that the sources do not always contain the same revoked organizations. By matching the information sources to each other, we were able to identify 565 organizations whose exemptions were revoked between January 1981 and April 1984. While this total represents a compilation of revoked organizations entered in at least one information source, it does not include revocations that may not have been listed in any of IRS' information sources.

As shown in the following chart, information published in the Internal Revenue Bulletin does not agree with IRS' EO/BMF information. Also, readily available AIMS information does not agree with the Internal Revenue Bulletin or the EO/BMF. These three information systems should agree on which organizations' tax exemptions have been revoked as a result of examination. As also shown in the following chart, the number of revocations listed in each of IRS' information sources differed significantly from the total 565 revocations we compiled.

Information Sources on Revoked <u>Organizations</u>	Number of Organizations --January 1981 to April 1984--		
	<u>Listed As Revoked</u>	<u>Not Listed</u>	<u>Compiled By GAO</u>
EO/BMF	390	175	565
Internal Revenue Bulletin	122	443	565
AIMS	176	a	565

a AIMS data was not readily available for the entire 39 month period.

As shown above, 390 or 69 percent of the 565 organizations were listed as revoked by IRS' EO/BMF, and 122 or 21 percent of the organizations were reported in the Internal Revenue Bulletin. Also, over half of the 176 organizations listed as revoked in AIMS for the 2 years of data available had not been published in either the Internal Revenue Bulletin or the EO/BMF.

A comparison of IRS' EO/BMF with published notices in the Internal Revenue Bulletin showed that IRS had not published the names of all revoked charitable organizations. According to IRS' EO/BMF, 390 charities were revoked between January 1, 1981, and April 1, 1984, but 326 of these were not published in Internal Revenue Bulletin notices during this period. An analysis of a random sample of 26 of the 326 revoked organizations per the EO/BMF showed that none of the 26 organizations had been published by June 1984. When IRS did publish an organization's name in the Internal Revenue Bulletin, based on a sample of 20 of the 64 published organizations, it took an average of four weeks from the revocation date. The 26 organizations we sampled had not been published at least 25 weeks after revocation.

Some information published in the Internal Revenue Bulletin also contradicted IRS' EO/BMF. Between January 1, 1981, and April 1, 1984, IRS published the names of 122 organizations in the Internal Revenue Bulletin as revoked. However, 27 of the 122 organizations remained listed in the EO/BMF as active charities, entitled to receive tax deductible contributions. Under present IRS procedures, these 27 organizations will continue to be listed in Publication 78, provided that they continue to file information returns. Consequently, these revoked organizations could continue receiving tax deductible contributions to which they are not entitled.

Comparisons of the AIMS system with the EO/BMF and the Internal Revenue Bulletin showed similar contradictions. As previously discussed, the EO/BMF and the Internal Revenue Bulletin should have listed all revocations from January 1, 1981, to April 1, 1984. According to IRS' AIMS information system, 176 organizations were revoked during fiscal years 1982 and 1983. Of these 176 revoked organizations, 139 were not published in the Internal Revenue Bulletin between January 1981 and April 1984. Further, 92 of the 176 were not listed in revoked status by the EO/BMF. Information was not readily available to determine whether the 176 revoked organizations listed in AIMS should have been in the other systems or were just reported incorrectly in the AIMS data base.

Information obtained from the U.S. Tax Court's appeals files and U.S. Department of Justice's CAMIS also contradicted IRS' EO/BMF and Internal Revenue Bulletin notices. According to these two judicial information sources, 36 organizations appealed their IRS revocations to the U.S. Tax Court, U.S. Claims Court, or U.S. District Court for the District of Columbia between January 1, 1981, and April 1, 1984. However, contrary to IRS procedures, 28 of the 36 were not listed as revoked in the EO/BMF and 26 had not been published in the Internal Revenue Bulletin's notices as of April 1, 1984.

In summary, our overall analysis showed that (1) of the 565 revocations we identified, the AIMS, the EO/BMF, and Internal Revenue Bulletin notices agreed on 19 and (2) 434 of the 565 revocations we identified were listed as revoked in no more than one of the information sources.

Increased Attention to Accurate  
Data Entry and Reconciliation  
Procedures Should Produce More  
Complete and Consistent Data

Current IRS procedures require that after a final determination has been made to revoke an organization's tax-exempt status, IRS is to mail the organization a final revocation notice. Concurrently with the mailing of the revocation notice, the AIMS and EO/BMF information systems are to be updated, and the notice of revocation is to be submitted for publication in the Internal Revenue Bulletin.<sup>3</sup> As previously discussed, these information sources are independently updated using separate forms.

---

<sup>3</sup>Internal Revenue Manual sections 7(11)88 and 7(11)58.

We discussed the inaccuracies we had noted with the IRS officials responsible for maintaining the information systems. The officials believed that the problem has been caused by non-adherence to input procedures. They said that if the currently prescribed procedures had been correctly followed, all of the information sources would have agreed.

In a subsequent meeting, IRS officials told us that during recent management meetings with field staff, they have emphasized the need to follow established input procedures and the importance of accurate data entry. They are also taking action to address the problem by developing new procedures. Under these procedures, district officials will send quarterly to national office officials a copy of the form used by the district to enter the revocation in the EO/BMF system. The national office officials, in turn, will reconcile those forms to the EO/BMF to assure that the system has been updated. We were told that an amendment to incorporate these new procedures into the Internal Revenue Manual is presently being drafted and that the amendment will highlight the need for accurate input to IRS' information systems.

We did not expand our detailed audit work to identify the underlying cause(s) for the disparity among the data reported in the various sources. We did, however, review IRS' written procedures governing the operation of the respective systems. Based on this limited look at the system designs, we tend to agree with the IRS officials that the cause may well be non-adherence to established input procedures.

We believe IRS' recent initiatives have merit. We also believe that to more fully address the problem, IRS could (1) expand its reconciliation process to encompass the data reported in the AIMS system and the Internal Revenue Bulletin and (2) monitor the results of the overall reconciliation process to determine if the problem has been resolved or if further work is needed to identify causes and needed corrective action.

Our experience in reconciling IRS records for a 3-year period indicates that once IRS has a reconciliation process in place and the systems produce more compatible data, the task of reconciliation should not be overly expensive or time consuming. Since IRS generally revokes no more than 45 organizations each quarter, reconciliations of all three sources should not be burdensome.

IRS' PUBLISHED INFORMATION DOES NOT IDENTIFY THOSE ORGANIZATIONS WHICH ARE APPEALING REVOCATION AND REMAIN ENTITLED TO TAX DEDUCTIBLE CONTRIBUTIONS

Limited contributions are allowable to revoked charitable tax-exempt organizations whose revocation is being judicially appealed. However, the public cannot determine from IRS' published information which organizations have judicially appealed their revocation. Further, neither the Internal Revenue Bulletin nor Publication 78 completely inform the public of the continuing deductibility of contributions to revoked organizations which have filed a judicial appeal.

An organization whose charitable tax-exempt status has been revoked by IRS may appeal its revocation to the U.S. Tax Court, the U.S. Claims Court, or the U.S. District Court for the District of Columbia under I.R.C. §7428. This section of the IRC provides that organizations which have filed a proper appeal are entitled to continue receiving limited tax deductible contributions.<sup>4</sup> The provision was enacted to protect a litigating organization's contributions from "drying up" during the time involved for appeal.<sup>5</sup> Consequently, an organization although identified in the Internal Revenue Bulletin as having its tax exemption revoked, is entitled by law to continue receiving contributions during appeal litigation.

The present Internal Revenue Bulletin notice does not distinguish between organizations that have filed in court to challenge the IRS revocation action and organizations that have not. For example, by reviewing records from the U.S. Tax Court, and from the Department of Justice's CAMIS, we determined that 10 of the 122 organizations which were identified as revoked in Internal Revenue Bulletins published between January 1, 1981, and April 1, 1984, appealed their IRS decision under the provisions of I.R.C. §7428. Unless IRS records and publishes this information, potential contributors would similarly have to consult the records of the three courts to identify which organizations are appealing revocation and to whom contributions will continue to be tax deductible.

---

<sup>4</sup>If the courts sustain IRS' revocation, under I.R.C. 7428, an individual's contributions of up to \$1,000 are nevertheless tax deductible if they were made during the period beginning on the date the revocation is published by IRS and ending on the date the court first determined the IRS revocation was proper.

<sup>5</sup>S. Rep. No. 938, 94th Cong., 2d Sess. 589 (1976).



Publication 78 does not solve the problem. As published, it lists the names and locations of organizations entitled to receive tax deductible contributions and does not include revoked organizations, including those which are in appeal and generally entitled to receive contributions. For example, the 1984 edition of Publication 78 did not include 8 of the 10 organizations appealing their revocation. As previously stated, this occurred because IRS procedures require that the names of all organizations listed by the EO/BMF as revoked be annually deleted from Publication 78. The remaining two organizations were not deleted from Publication 78 and were listed as active charities. We could not readily determine why they were not removed from the publication while the others were.

Thus, during the appeal period, the public is not notified in either the Internal Revenue Bulletin or Publication 78 that the organization is entitled to continue receiving tax deductible contributions. Rather, the appealing organization is deleted from Publication 78 for the entire period of appeal. If the appeal is decided in favor of the organization, it is not required to be relisted until the publication is reprinted in January. From 1981 to 1983, appeals took an average of at least a year to resolve.

To illustrate, 1 of the previously mentioned 10 organizations which appealed its revocation was announced as revoked by IRS in September 1981. The organization subsequently filed its appeal with the U.S. Tax Court in November 1981. After 2 years, the Court reversed IRS' revocation action, restoring the organization to tax-exempt status in March 1984. The organization was deleted from Publication 78 for the entire 3-year appeal period and was relisted in the January 1985 edition of Publication 78, 10 months after the Tax Court's decision. Since September 1981, IRS has not advised the public that the organization was entitled to continue receiving tax deductible contributions.

By not clearly indicating in both the Internal Revenue Bulletin and Publication 78 that organizations which appeal their revocation under I.R.C. 7428 are entitled to continue receiving tax deductible contributions, IRS has made the identification of those organizations entitled to deductible contributions under I.R.C. §7428(c) a difficult task. Consequently, an appealing organization may not receive the protection contemplated by I.R.C. §7428(c).

CONCLUSIONS

The inconsistencies between the information in the Internal Revenue Bulletin, IRS' EO/BMF, and AIMS information sources and information obtained from the U.S. Tax Court and Department of Justice show that a complete and accurate listing of revoked organizations does not exist. IRS could improve its system for identifying those tax-exempt organizations that have been revoked. IRS has recently taken some positive actions by establishing EO/BMF reconciliation procedures and notifying the staff about the importance of accurate data. However, IRS needs assurance that these actions correct the problem. Therefore, IRS should extend the reconciliation process to include data reported in the AIMS system and the Internal Revenue Bulletin so that it has a check on the accuracy of all three sources. If inconsistencies continue, further steps should be taken to identify and correct the cause(s).

IRS also needs to better assure that all revoked organizations appear in the Internal Revenue Bulletin. If revoked organizations do not appear in the Bulletin, these organizations may continue to receive tax deductible contributions to which they are not entitled. Further, if the Internal Revenue Bulletin notice does not clearly identify those organizations which are appealing IRS' revocation action, there is no other readily available source of information, other than court records, for determining if contributions to the organization are tax deductible. This could hinder those organizations from receiving contributions during litigation under I.R.C. §7428.

RECOMMENDATIONS TO THE ASSISTANT  
COMMISSIONER OF INTERNAL REVENUE

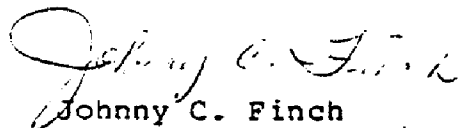
We recommend that, to improve control over the recording and publicizing of information on revoked tax-exempt charitable organizations, the Assistant Commissioner of Internal Revenue for Employee Plans and Exempt Organizations should establish procedures to reconcile revocations shown in the Internal Revenue Bulletin, IRS' EO/BMF, and AIMS information systems. If data in these sources continue to disagree, IRS should take further steps to identify and correct the cause(s) of the inconsistencies.

We also recommend that IRS revise the Internal Revenue Bulletin and the information presented in Publication 78 and its supplements so the public can clearly determine which revoked organizations are appealing IRS' decision and are thus entitled to continue receiving tax deductible contributions during the appeal.

- - - - -

We provided a draft of this report to IRS program officials for review and their detailed comments have been incorporated in this final report. These officials agreed with the report's findings and recommendations. We appreciate the cooperation we received during this assignment and would like to be informed of the specific actions you take to correct these problems.

Sincerely yours,



Johnny C. Finch  
Senior Associate Director