

assisting exempt organizations in voluntarily complying with the law; (3) improvement of the Service's internal controls and administrative procedures; and (4) an affirmative litigation policy designed to obtain judicial resolution of difficult legal issues and to give authoritative guidance to field personnel in their administration of the law.

Since my appointment to the office of Commissioner of Internal Revenue in January of 1965, we have carried on the program initiated by Mr. Caplin and Mr. Harding and have tried to amplify and to improve on those programs where possible.

I would preface my remarks on our administration of tax-exempt foundations with the assurance to the subcommittee that we are fully aware of the problems in this area, as developed by this subcommittee, and have taken positive action to effectively deal with them.

I will not comment on the history of the law applicable to tax-exempt organizations or the historical difficulties of administering that law. These matters have been fully discussed in the hearings held by this subcommittee in 1964 and are a matter of public record. Many of the deficiencies of the statutory provisions we are operating under were also brought out in the Treasury Department report on private foundations. I will limit my remarks to the administrative improvements which have taken place during my tenure as Commissioner.

The Service has conducted field audits of 47,754 returns of exempt organizations during fiscal years 1964-67. These audits involved 31,490 different organizations. As we discussed in the 1964 hearings, in order to select these returns for audit many more were subject to our classification procedures. We estimate that we screen and review about 14 returns for each one chosen for field audit. Thus, approximately 500,000 exempt organization returns were screened during this 4-year period.

These examinations resulted in recommended revocation of the tax-exempt status of some 930 organizations.

In the area of so-called private foundations and charitable trusts, which account for fewer than 10 percent of the registered exempt organizations, we audited the books and records of 4,335 organizations during the same period. We screened about 14 times that many. These examinations represented about 14 percent of our total examination of exempt organizations. As a result of these audits, revocation of tax-exempt status was recommended in 82 cases, or about 2 percent of the total examinations.

As this subcommittee knows, the examination of exempt organizations is but one narrow area of a vast range of responsibilities assigned to the Internal Revenue Service. Because our resources are not sufficient for all purposes, we must constantly review the various allocations of our manpower in order to achieve the most efficient discharge of all responsibilities. To the extent that we can improve the allocation of resources to the problems of exempt organizations in general, and private foundations in particular, we will certainly do so. This is something that is always relative to all of the problems before us that in varying degrees are not in need of attention.

In pursuing our active litigation program we have not been as successful as we would have hoped in securing judicial sanction of our interpretations of the law which would serve to limit the activities of an exempt organization. For example, in the *Clay Brown* litigation, which was heard by the Supreme Court, we lost the issue dealing with