to improve substantially our internal management of our exempt organization system which by its nature is nebulous and difficult. Although these entities pose more and different problems of administration, our data processing history with respect to other returns fortifies this belief. As we gain experience with the use of the system, we have greater capabilities of analysis and examination.

The EOMF facility is geared to identifying private foundations and should be of aid in identifying those organizations which should be subjected to special examinations.

There is a basic limitation, however. In our tax system based on the philosophy of voluntary compliance we must rely heavily on what the taxpayer (or tax-exempt organization) tells us. In the tax-exempt organization field, however, what we are told as facts concerning purpose, assets, and so forth, is not necessarily so important as what the organization does on a day-to-day basis. Activities as such are difficult to discern from financial statements. The best way to find out what an organization is doing is to have someone observe it in operation. The point is, effective administration of the exempt organization area must be heavily based on manpower, not machine power.

I do not intend to suggest that all or even a large percentage of the exempt organizations require constant surveillance. We believe our audit experience indicates rather conclusively that a great majority of the exempt organizations, including private foundations, are complying with the requirements of the tax laws.

In an attempt to promote voluntary compliance, the Service has, during the last 2 fiscal years, published 87 revenue rulings and revenue procedures relating to exempt organizations. In the first 4 months of fiscal year 1968 we have published 38 more rulings in the same area. The purpose of these rulings is to convey the limits of the law to those persons involved with or planning the creation or operation of exempt organizations.

The revenue ruling activity is carried out by our Assistant Commissioner (Technical), all of whose employees are in the national office. In 1965, we reorganized our technical staff and in so doing, strengthened the administration of exempt organizational work. At the present time, we have more than 100 employees in our technical organization who work exclusively on exempt organization matters. This represents the greatest allotment of technical manpower to a single area of responsibility in the national office.

I have only touched briefly on highlights in our exempt organization program. We feel that there has been steady and marked advancement toward achieving the goals of our program within the limitations imposed on us by manpower and law. We will continue to pursue and refine this program.

I might add that I have followed the proceedings of this subcommittee with keen interest. One of the focal points of attention in the last several weeks has been the acquisition by grantor controlled tax-exempt private foundations of going businesses previously carried on by that grantor.

In the past several years we have faced similar situations and have been successful in denying tax-exempt status to the organization. For example, in two recent cases, *Cranley* v. *Commissioner* (20 TCM 20 (1961)) and *Sonora Community Hospital* v. *Commissioner* (46 TC 519 (1966)) the facts indicated that doctors had established purported