

APPENDIX B**INTERNAL REVENUE SERVICE ADMINISTRATIVE ACTIVITY**

The Internal Revenue Service has taken significant administrative measures directed at insuring that private foundations, and also other types of exempt organizations, operate in a manner consistent with the provisions of existing law. These additional efforts have taken five forms.

The first has been to increase the number of exempt organization returns which are audited each year. Whereas only approximately 2,000 of such returns per year were audited in the 1950's, over 10,000 exempt organization returns were examined in fiscal year 1964. As part of its increased examination program, the Service has improved the quality of each audit. Special classes to teach selected agents to deal with the special problems which are raised in an examination of a tax-exempt organization have been held. Special audit guidelines, which will permit agents to complete a thorough examination of a foundation's activities in a reasonable period of time, have also been prepared.

The Revenue Service's second major effort has been to increase the amount of available information concerning foundation behavior. This information will be useful to determine whether foundations are operating within the principles of existing law and, if not, the type of abuses which exist. The additional information will also be used to select certain returns for examination as well as for future statistical studies.

Consistent with the objective of obtaining more information, the Service has made substantial revisions in the information returns (Form 990-A) which private foundations are required to file. For example, the 1964 return requires private foundations to supply information with respect to the market value of their assets and detailed schedules of their accounts (and notes) receivable and payable. This information was not previously available from a foundation's return. The new form also substantially increases the amount of data which foundations must supply with respect to situations in which a foundation owns a significant—5 percent or more—portion of a corporation's stock. To the extent permitted by existing law, this new information will be made available to the public.

Third, improvements have been made in the Service's internal controls and procedures in the exempt organization area. For example, a check on delinquent and incomplete returns is now being performed in all district offices. This has contributed to the increase in the quality and quantity of exempt organization returns which are currently being filed. Similarly, an Exempt Organization Master File system—which will contain a list of the names and addresses of all exempt organizations—is presently being established. This list, which will be placed on magnetic tape, will permit the use of electronic data