



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

July 16, 2001

Joseph Farah
Executive Director
Western Journalism Center
P.O. Box 2450
Fair Oaks, CA 95629-2450

Dear Mr. Farah:

This is in response to your August 10, 1999 letter, in which you sought to appeal the Treasury Inspector General for Tax Administration's (TIGTA) July 6, 1999 response to your Freedom of Information Act (FOIA) request dated April 5, 1999. Your FOIA request sought information concerning Western Journalism Center.

TIGTA's July 6, 1999 response indicated that information contained in ROI 5-9702-0022 as well as documents pertaining to Western Center for Journalism v. Cederquist et al. were responsive to your request. At that time TIGTA asserted FOIA exemptions (b)(3), (b)(5) and (b)(7)(C) as the bases for withholding various documents in full and in part.

We have reviewed the 139 pages of documents that contain information responsive to your request. At this time, we are releasing sixty-three (63) pages in full and fifty-six (56) pages in part. (See enclosed). In addition, we continue to withhold twenty (20) pages in full. We are asserting FOIA exemption (b)(7)(C). Further, information has been withheld from the enclosed documents because the information is outside the scope of your request for information concerning Western Journalism Center. This information is marked as "OS" on the documents that are enclosed.

FOIA exemption (b)(7)(C) protects from disclosure "information compiled for law enforcement purposes the release of which could reasonably be expected to constitute an unwarranted invasion of personal privacy." 5 U.S.C. § 552(b)(7)(C). The withheld information consists of identifying information about various individuals other than yourself. Releasing the withheld information would not shed any light into the Bureau's performance of its official functions, but instead would result in an invasion into the personal privacy of the individuals whose names and personal information have been withheld. The information was compiled for law enforcement purposes and the privacy interest of the third parties outweighs the public's interest in having the information released, and therefore, this information is exempt from release in response to your request.

The FOIA requires us to advise you of the judicial remedies granted in the Act. You may file a complaint in the United States District Court for the district in which you

reside, or have your principal place of business, or in which the agency records are located, or in the District of Columbia. If you have any questions, please contact Lori Creswell of this office at (202) 622-4068.

Sincerely yours,

A handwritten signature in black ink, appearing to read "George W. Reynolds". The signature is fluid and cursive, with the first name "George" being more prominent.

GEORGE W. REYNOLDS
Deputy Chief Counsel

Enclosure

cc: Disclosure Section

REPORT OF INVESTIGATION

(Chief Inspector - Washington, D.C. 20224)

Office of Origin Southeast Region		Date of Report
Title (Name and address) Questionable Exempt Organization Examination Activity	Type of Investigation SI INTEGRITY	Type of Report <input type="checkbox"/> Preliminary <input checked="" type="checkbox"/> Final <input type="checkbox"/> Supplemental
Social Security Number	<input type="checkbox"/> Employee <input type="checkbox"/> Applicant <input type="checkbox"/> Nonemployee	
Date of Birth	Place of Birth	Position and Grade
Headquarters (City)	Date Entered on Duty	
Post of Duty	Period of Investigation February 10, 1997 - June 26, 1997	

BASIS FOR INVESTIGATION


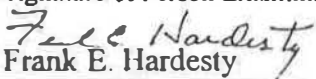
By memorandum, dated January 30, 1997, EVELYN PETSCHKE, Assistant Commissioner (Employee Plans and Exempt Organizations), reported that in recent weeks there have been a number of media articles and congressional correspondence critical of Exempt Organizations' examination activities and other issues.

ALLEGATIONS

1. There is outside intervention in the IRS' Exempt Organizations' examination selection and/or exempt status determination letter process, to target specific entities/taxpayers for political purposes.

2.

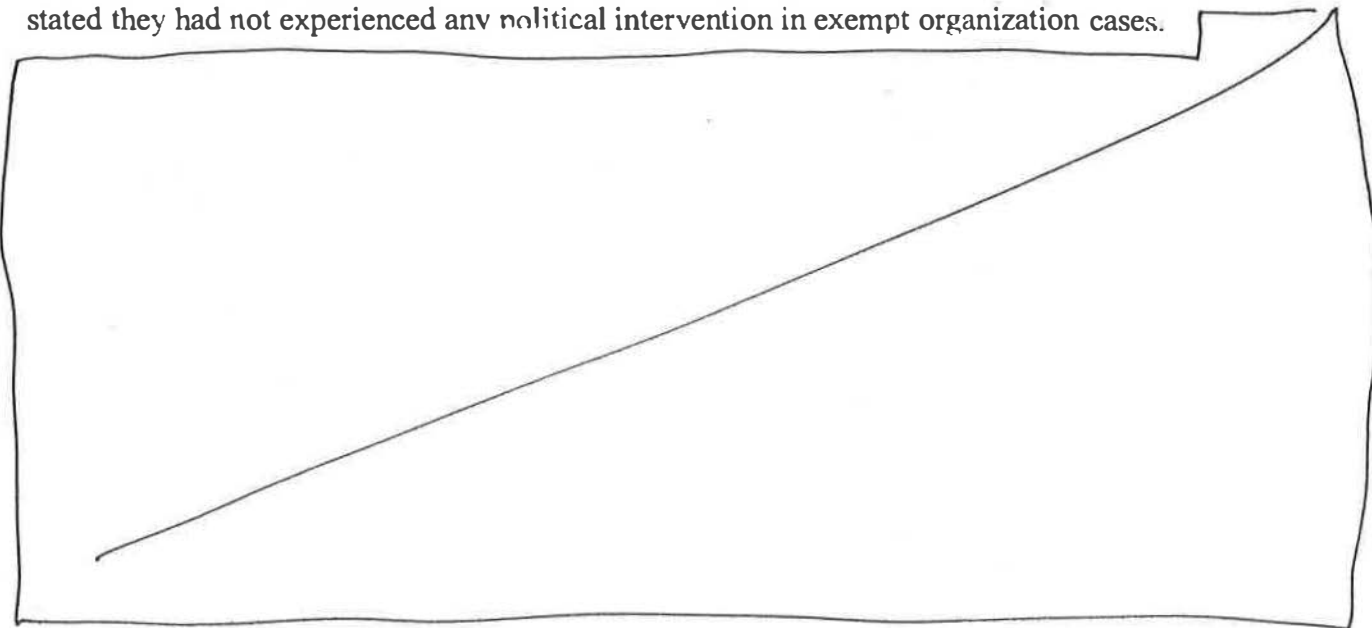
OS

Distribution	No.	Case Number	Signature of Investigator Making Report
Chief Inspector	1	5-9702-0022	
Regional Inspector	1		James R. Rice
Inspector General		Signature of Person Examining and Forwarding Report	
Asst. U. S. Attorney		 Frank E. Hardesty	
Other (Specify)		Title Supervisor-in-Charge	Office (City) Richmond VA

RESULTS OF INVESTIGATION

1. Based on our investigation of 28 cases and extensive interviews, this special inquiry did not develop any evidence that outside intervention for political purposes was involved in IRS decisions in examinations or determination letters. Our inquiries included numerous interviews with revenue agents, managers, executives (including the Assistant Commissioner (EP/EO), the Deputy Commissioner and the Commissioner), exempt organization representatives and information item complainants/sources. The majority of the examinations in our inquiry were initiated from media articles and individual complaint letters submitted as information items from a variety of non-IRS sources, i.e. individuals, other exempt organizations, etc. Our special inquiry showed that IRS actions in the 28 cases were based on the merits of the alleged prohibited political activities. Because information items not selected for examination are not retained by the key districts, a practice authorized by the national office, we were unable to assure that IRS actions for other information items are consistent with those in the 28 cases.

During our interviews with current and past IRS executives, we asked a series of questions regarding instances of intervention, outside contacts for information on specific cases, etc. The executives stated they had not experienced any political intervention in exempt organization cases.



Our special inquiry identified internal control vulnerabilities that prevent the IRS from readily assuring oversight bodies that a process exists for timely, objective, and consistent decisions in the examination of alleged political activities of exempt organizations or to quickly finalize a determination for tax-exempt status. These vulnerabilities could contribute to an impression by Congress, other exempt organizations and the general public, that the IRS' examination and determination letter processes are susceptible to manipulation by individuals or organizations that

utilize the media, congressional and/or White House complaints to voice their political views. The lack of training and accurate explanations by revenue agents with some representatives on why their exempt organizations were audited does little to allay concerns that they are selected for audit based on their political leanings.

2.

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DETAILS OF INVESTIGATION

Exhibits

In a memorandum dated January 30, 1997, the Assistant Commissioner, EP/EO (Employee Plans and Exempt Organizations), stated that media articles and congressional correspondence allege that there has been intervention in EO's examination selection process to target specific taxpayers for political purposes, that EO's examination selection process is either improperly selecting cases or is otherwise susceptible to manipulation, and

1.1

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A review of the Assistant Commissioner's memorandum and other related media articles and congressional correspondence dated between September 1996 and February 1997, initially identified 32 names of individuals and entities alleged to be exempt organizations and/or individuals that were either examined or not examined or received expedite or delayed decisions on exempt status because of their "political" activities.

1.1, 2.1,
3.1

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The IRS receives information items from various external sources (i.e. media articles, individuals, congressional inquiries, other exempt organizations, etc.) regarding allegations against exempt organizations. The IRS followed a consistent practice of forwarding the information items to key district offices for evaluation of the merits of the laws alleged to have been violated, without directing the field managers and revenue agents in whether to examine or not examine the exempt organizations.

6.1 - 10.5

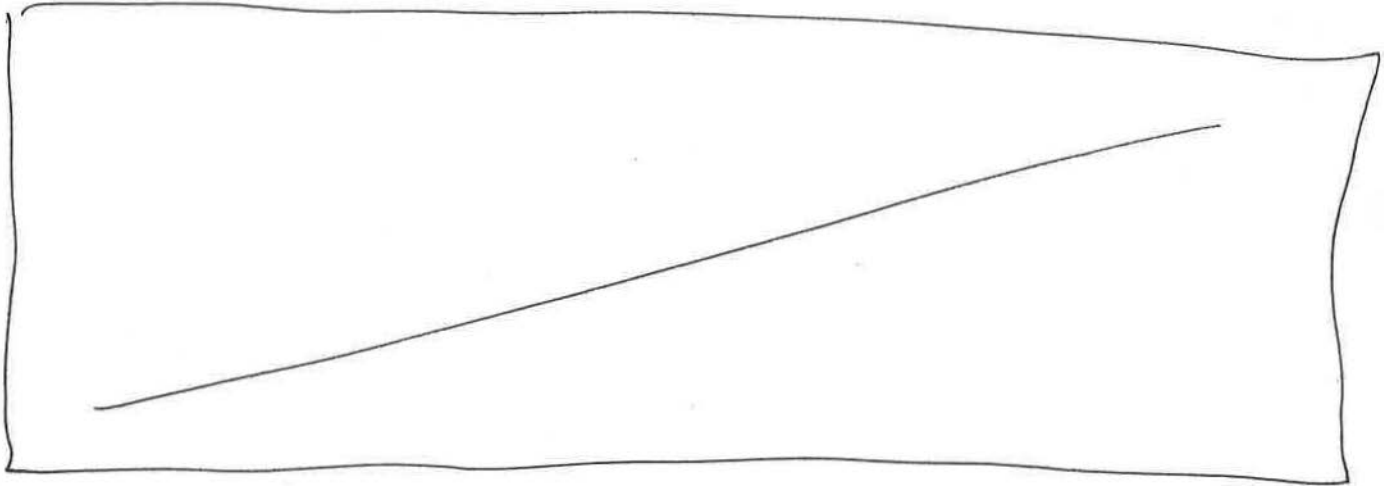
We reviewed available information for the 28 cases included in the special inquiry and interviewed numerous revenue agents, managers, executives (including the Assistant Commissioner (EP/EO), the Deputy Commissioner and the Commissioner), exempt organization representatives and information item complainants/sources. In addition to the sworn statements of IRS employees, managers and executives, we conducted an extensive

6.1 - 31.4

review of procedures and practices in the national office and each of the five key district offices. From these investigative steps we determined the following events and actions occurred in the 28 cases:

5.1

- 15 examinations were initiated. The sources of the 15 information items included media articles, individuals, and other exempt organizations. The IRS forwarded the information items to one of their key district offices for evaluation and any action they deemed necessary;



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The actions taken by the IRS in the examinations initiated _____ were consistent in addressing issues involving allegations of improper activities for exempt organizations, i.e. prohibited political activities. The fact that a violation of the Internal Revenue Code is in question is what caused the examination or influenced a determination decision, not the political leaning and/or motivation of the sources. We did not identify any directions by IRS officials to managers and/or revenue agents to examine/not examine or approve/not approve applications for the involved exempt organizations, and we did not develop any evidence that suggests that Exempt Organizations' examination selection process is improperly selecting cases.

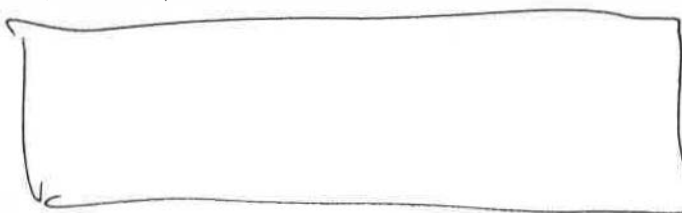
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An analysis of the media articles and congressional correspondence for the 28 cases showed:

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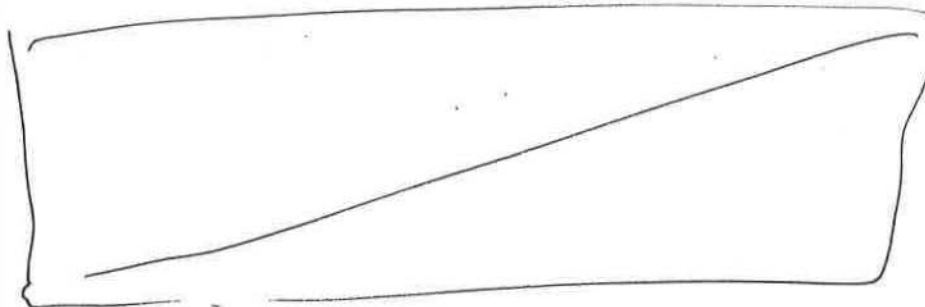
- 17 alleged politically conservative EO entities were either currently under audit or recently audited;

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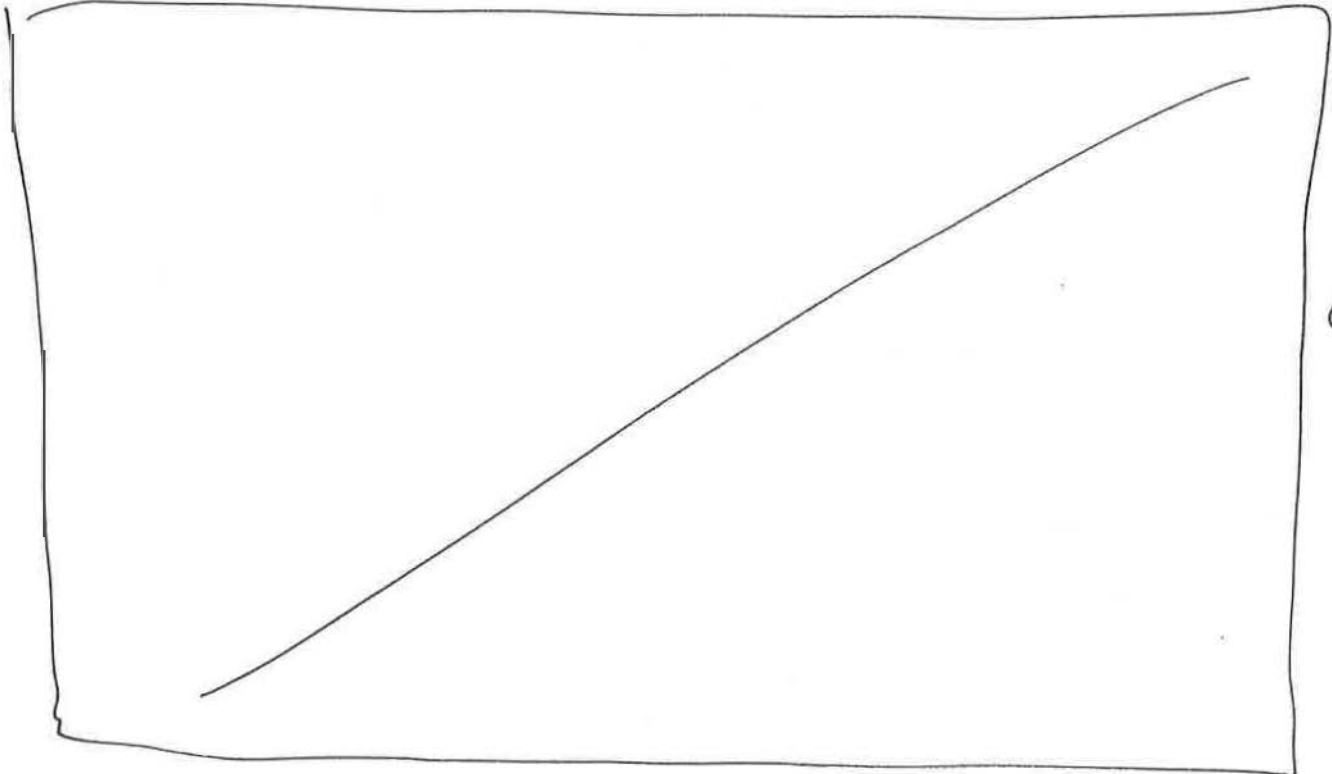
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5.1

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Western Center for Journalism



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Investigative Steps Taken to Resolve Allegations:

31.1 - 31.3

In order to prove or disprove the allegations of external influence contributing to decisions to examine or not examine or to approve or not approve exempt status applications for these entities, we evaluated IRS procedures for classification and selection of EO returns for examination and for processing applications for exempt status. Also, we determined whether IRS followed procedures in examining EO entities and processing applications for exempt status.

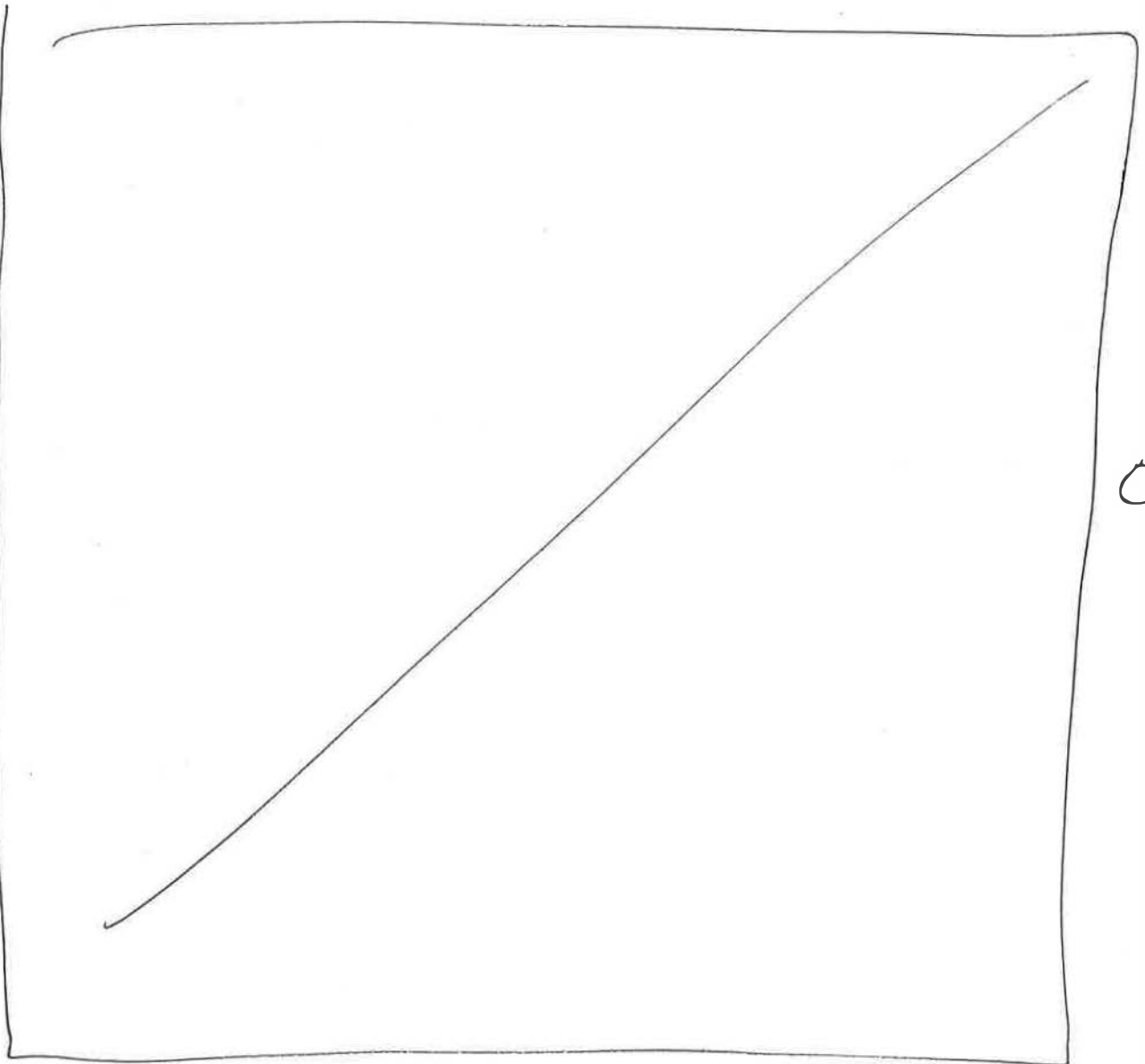
Specifically, we:

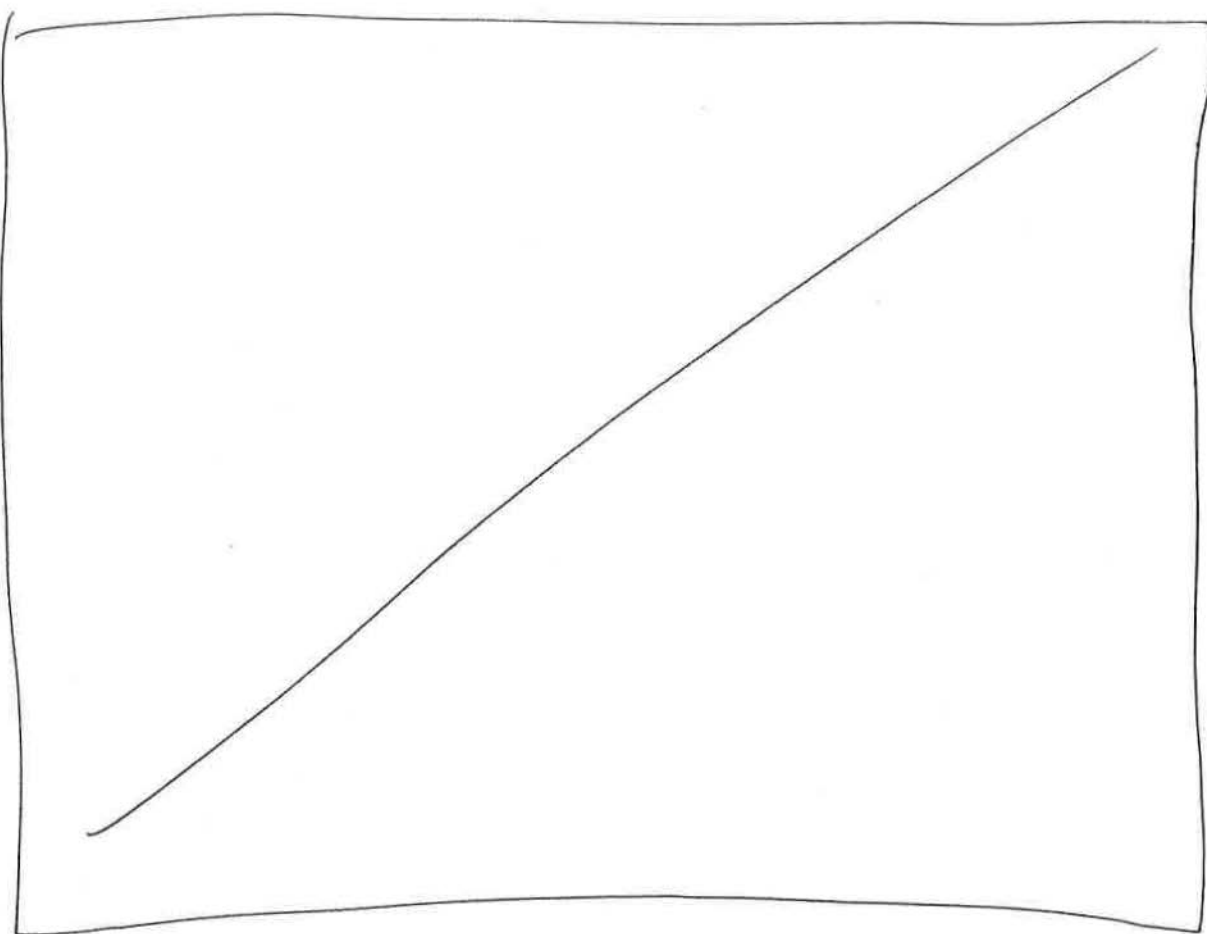
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|---|---|
| | 4.1 |
| • secured case files and conducted in-depth reviews of IRS actions in the 28 cases, including interviews under oath of 15 case agents and six of their immediate, first-line managers and interviews of five taxpayers who were the sources of complaints of the alleged improper political activities and two exempt organization representatives who were quoted in media articles as critical of the IRS' examination selection process. | 6.1 - 6.28
7.1 - 7.15
8.1 - 8.6
18.1 - 18.5
19.1 - 19.2 |
| • interviewed 31 other Service managers, executives (including the Commissioner, Deputy Commissioner and Acting Chief Compliance Officer), and Chief Counsel employees under oath regarding improper influence, procedures, sources of and basis of examinations and exempt status determinations. | 9.1 - 16.3 |
| • interviewed the former Assistant Commissioner (EP/EO) regarding his perspective on any improper influence during his tenure in the top EP/EO executive position. | 17.1 |
| • conducted walkthroughs to evaluate procedures authorized and practices followed at IRS' national office and in the five key district offices (four for examinations and one for determination letters). | 31.1 - 31.2 |
| • interviewed three Treasury Department and Administration employees regarding control, transmittal and receipt of congressional and White House correspondence sent to the IRS. | 31.3 |
| • reviewed national guidelines and training material to identify the procedures and techniques for Exempt Organization employees to utilize during the initial interview with the taxpayer, specifically, what training did employees receive regarding how to respond to the taxpayer's question, "why is my return being examined?" | 31.4 |

Review of the 28 case files, computer system records, interviews of case agents and managers, and interviews of outside sources showed the following:

17 Alleged Politically Conservative EO Entities Were Either Currently Under Audit or Recently Audited

- 12 of 17 entities were examined.





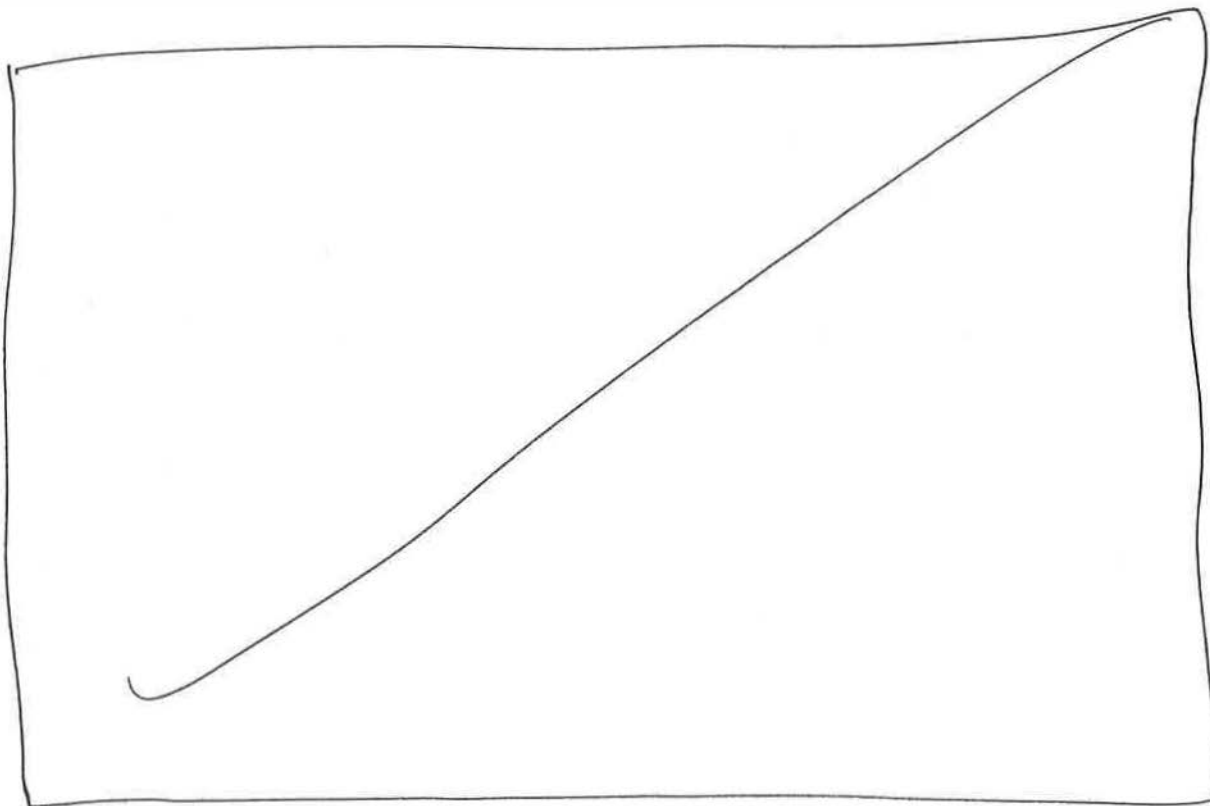
Western Center for Journalism

6.27

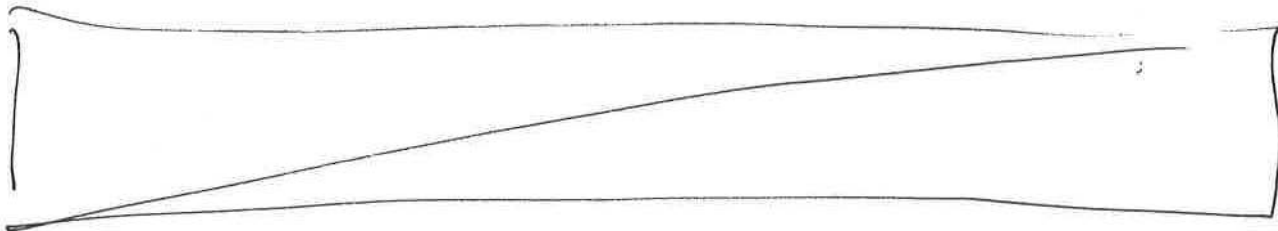
- Several newspaper articles reported that the Clinton Administration influenced the initiation of an audit against Western Center for Journalism (WCJ) because of their investigative reporting of the circumstances surrounding the death of White House Deputy Counsel Vincent Foster. One of the articles stated that the revenue agent remarked that "this is a political case, and it is going to be decided in the national level."
- WCJ is currently being audited for tax periods 9412 and 9512.
- The audit originated from a taxpayer who faxed a letter to the White House expressing his concern over a one-page advertisement paid for by WCJ that asked for contributions to investigate Foster's death. The fax was forwarded to the EO National Office and then to the respective Key District Office for appropriate actions.

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- An interview with the taxpayer confirmed that he authored the fax.
 - The initial issue was whether the organization is required to file Forms 990. Additional issues raised: (1) That investigative reporting was paid for with tax-deductible contributions. The agent is waiting for copies of a proposed 1994 ruling relating to investigative reporting to "rule" on this issue. (2) That there is evidence of inurement (the accrual of personal benefit).
 - The revenue agent stated that he advised the organization's CPA that he would not be making the decision as to whether or not the story was political. He would send it off to National Office and let them decide. He did not want to take it upon himself to make such a decision. He never said that the case was a political issue.
 - The revenue agent and group manager stated that they were not aware of any interest in the case by the Commissioner, Treasury, or White House personnel.

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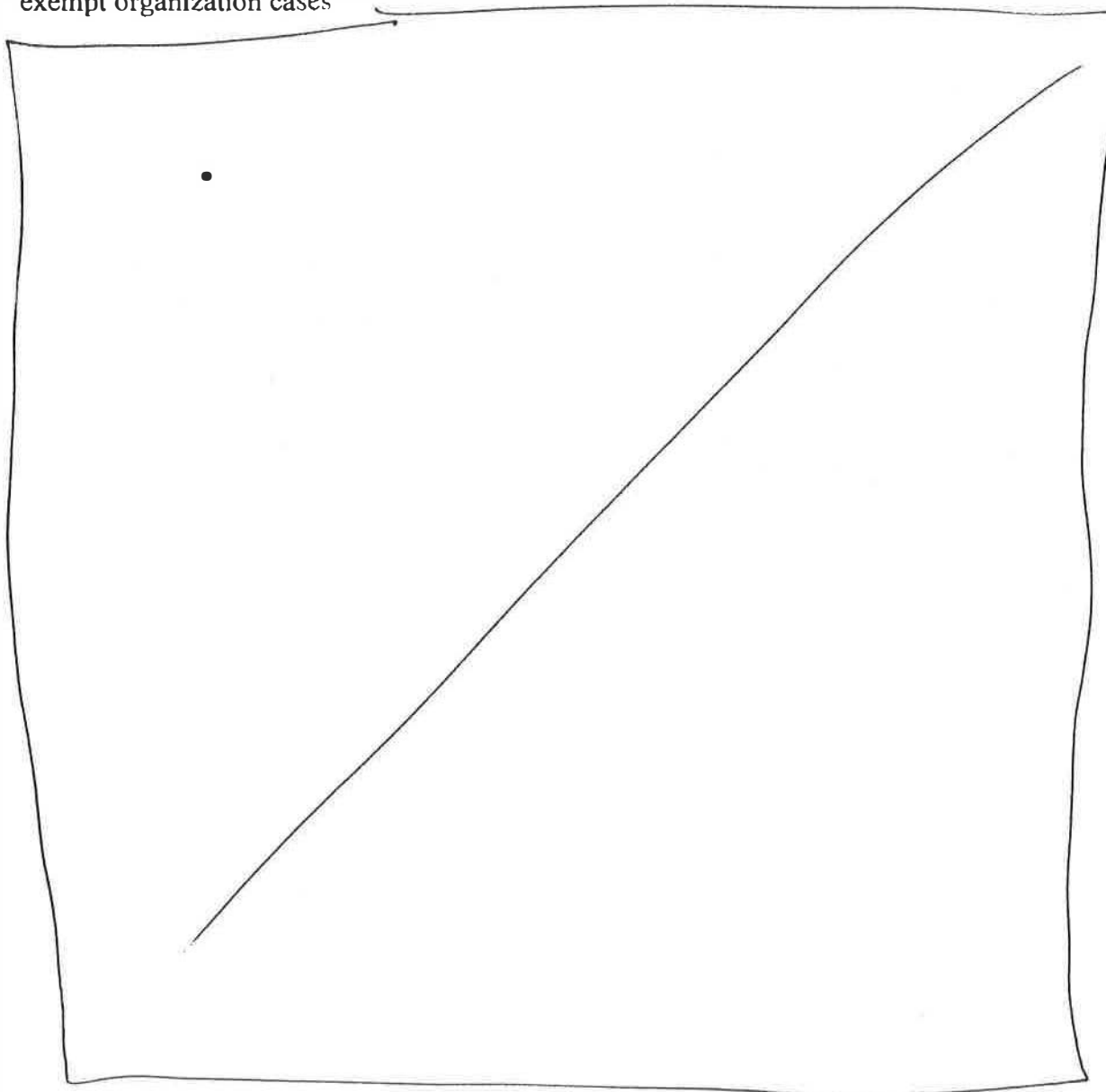
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During our interviews with current and past IRS executives, we asked a series of questions regarding instances of intervention, outside contacts for information on specific cases, etc. The executives stated they had not experienced any political intervention in exempt organization cases

15.4 - 15.6,
17.1

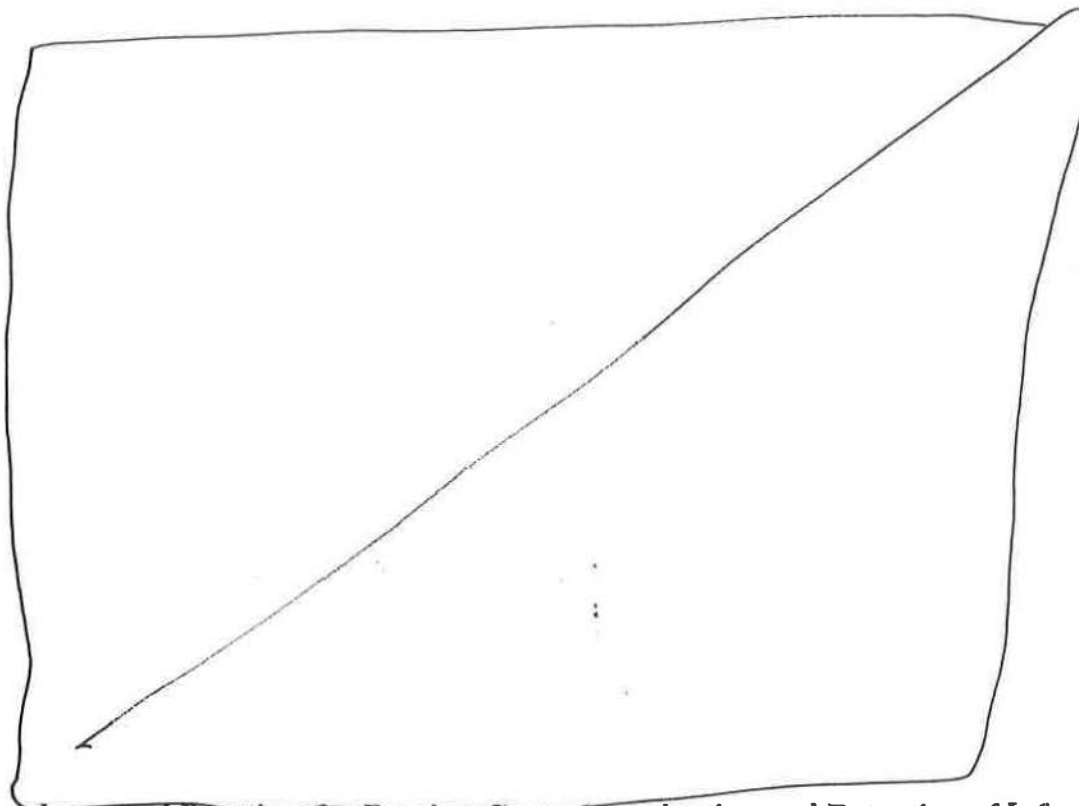


15.5

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29.1

IRS Procedures and Practices for Receipt, Control, Evaluation and Retention of Information Items (complaints, referrals, etc.) on Allegations Against Exempt Organizations

**Procedures for Classifying Information Items
And Conducting Church Examinations**

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IRM procedures for evaluating information items were very general, contained both vague and sometimes conflicting information, and have been virtually unchanged since 1986.

- The Returns Program Manager or designated manager administers the Employee Plan/Exempt Organization (EP/EO) classification program for information items.
- There is no guidance on the specific issues to consider when evaluating information items.
- Various sections of the procedures contained conflicting information as to whether information items should be destroyed.
- The IRM gives field management broad discretion in local coordination and development of local procedures.

-
- Procedures for church examinations were:
 - » Specific as to the steps to follow once an inquiry or examination is initiated;
 - » Non-specific with respect to classifying and selecting church returns for an inquiry or examination.

Practices At The Key District Offices

- No local procedures for processing information items/referrals. Two of the four KDOs had procedures but they were incomplete for processing information items.
- The KDOs did not maintain a record-keeping system for tracking information items from receipt to disposition.
- The KDOs did not have ~~time~~ standards established to ensure that information items/referrals are promptly screened.
- The KDOs did not have specific criteria for evaluating the information items for audit potential.
- The information items not selected for examination were destroyed shortly after the evaluation at three of the KDOs and they did not maintain a record-keeping system that explained why these information items/referrals were not selected for examination and destroyed.
- Information items selected for examination are controlled by the KDOs on Audit Information Management System (AIMS) with a source code 60, Information Report, rather than the specific AIMS source code that would have identified the actual source of the lead.

Conclusion

Overall, the KDOs were inconsistent on how information items were processed, screened, and controlled. The information items were screened intermittently and seldom annotated as to why the referral was not selected for examination. Information items were not tracked from receipt to disposition and the source of the lead was not accurately recorded on AIMS. Without accurate or complete information the Service can not provide reliable data regarding the exact source, status, or disposition of information items.

IRS Procedures and Practices for Receipt, Control, Evaluation and Approval/Disapproval of Applications for Exempt Status

Determination Letter Processing Procedures

Overall, IRM procedures for Field Offices were generally of sufficient detail and contained specific criteria for when applications should be approved on an expedite basis, processed under "technical screening" guidelines (organizations such as the _____), or forwarded to the National Office (N.O.) for a decision. 31.2 OS

However, the IRM contains no definitive standard for the number of days by which applications should be processed. In addition, there are no specific IRM procedures or guidelines for actions taken in the N.O. As such, N.O. managers developed local case processing operating procedures.

Practices in the Cincinnati Key District Office and in the National Office

Based on a walkthrough of processing, interviews of managers and a review of available documentation, the Cincinnati office is following established national and local guidelines for processing applications for recognition of exempt status. The N.O. is also adhering to established IRM guidelines for application processing; and has developed local procedures to supplement those in the IRM.

Procedures for IRS Handling of White House, Congressional, and Treasury Correspondence

All correspondence received at IRS' Legislative Affairs is controlled on the Executive Control Management System (ECMS). ECMS is a Lotus Notes paperless tracking system designed to manage and control correspondence. As of January 20, 1997, ECMS was implemented in the National Office and the four Regional Offices. It has not been determined whether ECMS will be implemented at the Service Centers and District Offices. Prior to that Legislative Affairs controlled correspondence on Congressional Correspondence Tracking System (CCTS) and Commissioner's Mail Tracking System (CMTS). 31.3

Most of the mail is hand delivered by a mail clerk to Legislative Affairs. The White House mail is routed to Legislative Affairs through Treasury. The mail comes in bulk in a mail pouch, box or similar container. There is no transmittal or similar document transmitting the mail to the IRS and Legislative Affairs does not acknowledge receipt of the correspondence. The White House will annotate "Treas/IRS bulk" on the top left corner of the

correspondence. Occasionally, the White House mail will be sent directly to 1111 Constitution Ave. and that mail would be delivered to the courier desk and they would call Legislative Affairs to come and get the mail. Upon receipt, the mail is opened, counted and date stamped and the totals are entered in the Daily Correspondence Received log by type (Congressional, Treasury, Commissioner, and White House).

Conclusion

Our walkthrough and observations showed that Legislative Affairs followed the procedures for processing correspondence received from the White House, Members of Congress, and Treasury. We also observed large volumes of bulk mail received from the White House and noted that most of the correspondence dealt with individual tax issues or the taxpayers commented on the complexity of the tax laws

Procedures for the Initial Contact with Taxpayers

The IRM and the training material addresses how the revenue agents should conduct the initial contact and interview with the taxpayer. The material provides direction and techniques to ensure that the communications between the taxpayer and the revenue agent are effective. It also stresses that the revenue agent should explain the examination process to the taxpayer, including how their return was selected for examination. In addition, the appointment letter explains that the Service is examining their return to determine whether the organization is operating in the manner stated and for the purpose set forth in its application for recognition of exemption. 31.4

Internal Control Vulnerabilities

Internal Control Vulnerabilities in IRS' Exempt Organization Operations That Pertain to Receipt and Retention of Information Items on Exempt Organizations and in IRS' Receipt, Control and Processing of Applications for Exempt Status

The special inquiry did identify several internal control vulnerabilities that may contribute to an impression by Congress, other exempt organizations and the general public, that the IRS' examination selection and determination letter approval processes are susceptible to manipulation by individuals or organizations that utilize the media and/or congressional complaints to voice their political views.

These vulnerabilities include:

- lack of written procedures and inconsistent practices in the key district offices

for receipt, control and retention of complaints (information items) of alleged improper political activities of exempt organizations received from various sources.	31.1
<ul style="list-style-type: none"> information items not selected for examination are destroyed by the key district offices, a practice authorized by national office instructions, thus preventing comparisons and assurances that identical IRS actions are taken in identical or very similar situations. 	
<ul style="list-style-type: none"> information items received under cover letters from members of Congress and/or the White House are forwarded intact by the IRS' national office to field (key district) offices for evaluation of examination potential. 	31.3, 6.7, 6.12
<ul style="list-style-type: none"> the methodology practiced by the IRS in referring certain proposed adverse exempt status determinations to the national office for final decisions, and the national office and Counsel negotiating directly with applicants when their request for determinations of exempt status do not meet criteria in the law, has resulted in protracted periods of time (several years) without final decisions in two of the three determination letter cases that appeared in the media articles. 	31.2, 6.6, 6.16
<ul style="list-style-type: none"> lack of training and outdated, inappropriately worded taxpayer notices for what to tell taxpayers when asked why they are being audited, may have contributed to misunderstandings by exempt organization representatives quoted in the media articles. Follow-up with two exempt organization entity representatives quoted in media articles showed that in one case, the articles were not accurate when stating what they and the IRS revenue agent discussed relative to the cause of the audit. The second exempt organization representative confirmed that the media article accurately represented their impression of what occurred during the conversation on why they were being audited. However, both representatives stated that they are still uncertain why their exempt organizations were audited by the IRS. 	31.4, 19.1 19.2
<ul style="list-style-type: none"> The IRS constantly faces a dilemma when trying to determine the fine line that separates tax administration from tax policy and tax legislation. 	15.4 - 15.6 17.1

These vulnerabilities prevent the IRS from readily assuring oversight bodies that a process exists to insure timely, objective, and consistent decisions to examine the alleged political activities of approved exempt organizations or to quickly finalize a determination on new applications for exempt status. The lack of clear and accurate discussions with representatives on why the IRS is auditing their exempt organization does little to allay their concerns that they are selected for audit based on their political leanings.

EXHIBIT LIST SHEET

1. Exhibit 1 - Memorandum from Assistant Commissioner (EP/EO) Evelyn Petschek, dated 1/30/97 with attached media articles and congressional correspondence.

- 1.1. *A/C Memorandum*

2. Exhibit 2 - Review and analysis of media articles and congressional correspondence attached to A/C Petschek's memorandum dated 1/30/97.

- 2.1. *Memorandum of Activity, dated 2/10/97*

3. Exhibit 3 - Review of media articles and congressional correspondence to identify entities/individuals to include in our special inquiry.

- 3.1. *Memorandum of Activity, dated 3/1/97*

4. Chart showing current and former IRS employees, exempt organization representatives, information item complainants/sources interviewed and 28 related entities/individuals included in this special inquiry.

- 4.1. *Exhibit 4 - Flow Chart*

5. Exhibit 5 - Chart showing examination/non-examination activity for exempt organizations included in special inquiry, source of examinations, etc.

- 5.1. *Information Chart of 28 entities/individuals included in this special inquiry.*

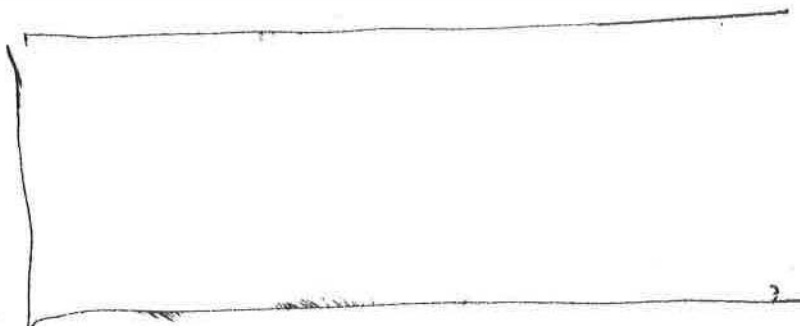
6. Exhibit 6 - Case Reviews and Glossary

- 6.1.

- 6.2.

- 6.3.

- 6.4.



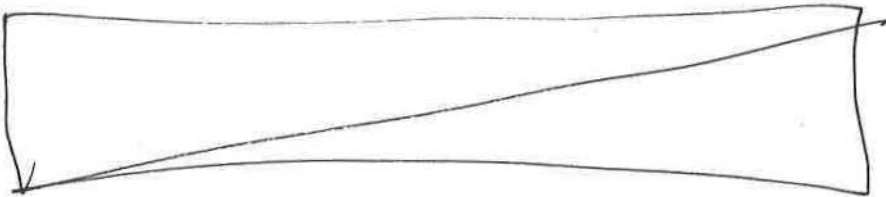
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6.27. *Western Center For Journalism*

6.28. _____

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7. Exhibit 7 - Memorandums of Interview - Revenue Agents

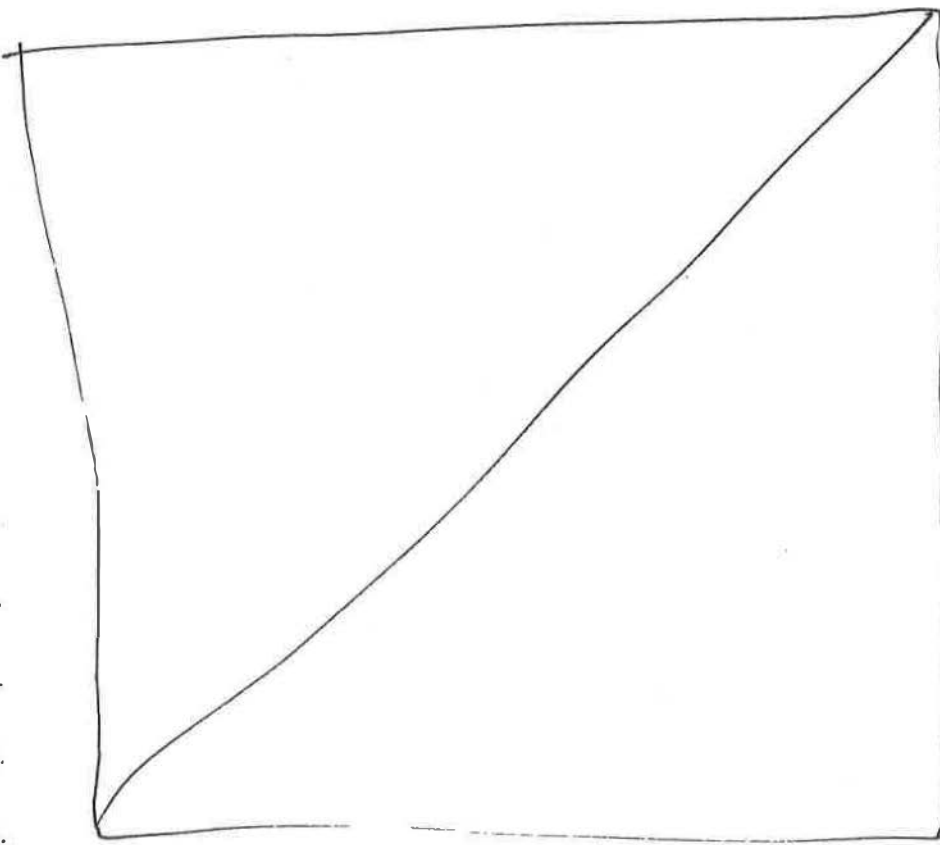
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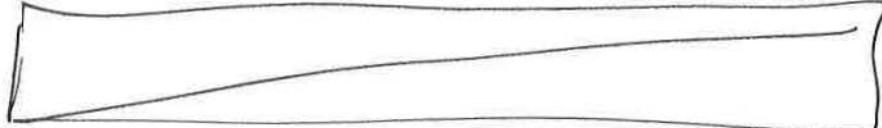
7.13. _____

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8. Exhibit 8 - Memorandums of Interview - Group Managers

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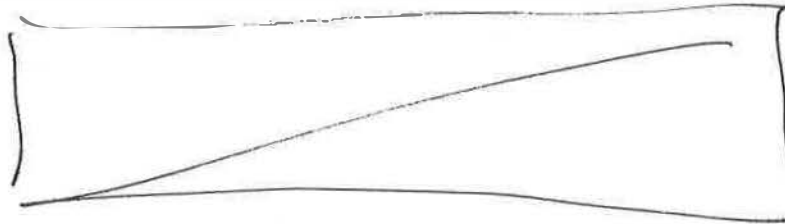
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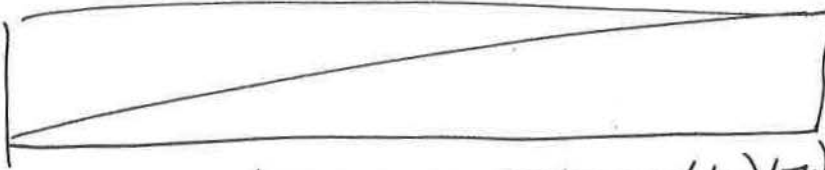
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9. Exhibit 9 - Memorandums of Interview - Branch Chiefs

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9.2.

9.3.



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(b)(7)(c)

10. Exhibit 10 - Memorandums of Interview - Division Chiefs

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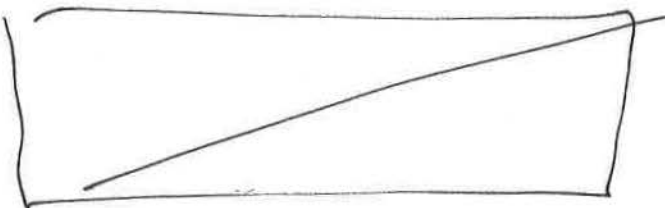
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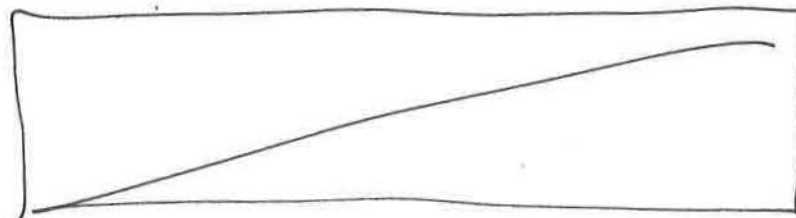
11. Exhibit 11 - Memorandums of Interview- Regional Chief Compliance Officers

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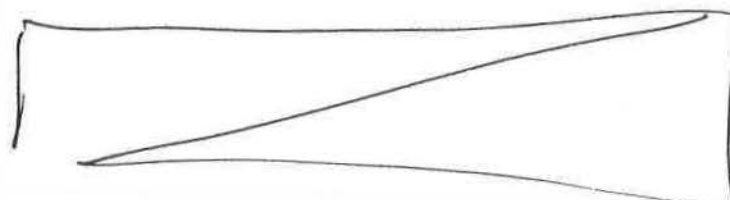
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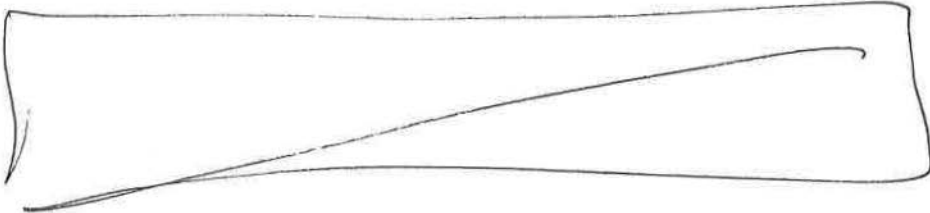
12. Exhibit 12 - Memorandums of Interview - District Directors

12.1

12.2



OS

- 12.3. *Steven Jensen, dated 4/3/97*
- 12.4. _____ OS
13. Exhibit 13 - Memorandums of Interview - Regional Commissioners OS
- 13.1. _____
- 13.2. *Marilyn Day, dated 4/3/97*
- 13.3. _____ OS
- 13.4. _____
14.  OS
15. Exhibit 15 - Memorandums of Interview - National Office EO Executives and Staff
- 15.1. _____
- 15.2. _____ OS
- 15.3. _____
- 15.4. *Steven Miller, Special Assistant to Assistant Commissioner, dated 3/12/97*
- 15.5. *Marcus Owens, Director, dated 3/13/97, 6/4/97 and 6/6/97*
- 15.6. *Evelyn Petschek, Assistant Commissioner, dated 3/12/97*
16. Exhibit 16 - Memorandums of Interview - Commissioner, Deputy Commissioner, and Acting Chief Compliance Officer
- 16.1. *Micheal Dolan, Deputy Commissioner, dated 4/15/97*
- 16.2. *James Donelson, Acting Chief Compliance Officer, dated 4/15/97*

16.3. *Margaret Richardson, Commissioner, dated 4/25/97*

17. Exhibit 17 - Memorandum of Interview - Former A/C (EP/EO)

17.1. *James McGovern, Former Assistant Commissioner (EP/EO),
5/29/97 and 6/11/97*

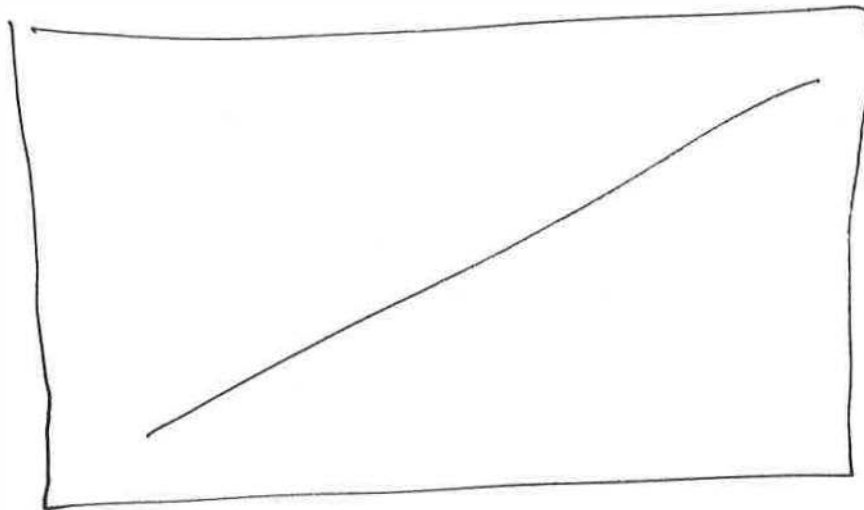
18. Exhibit 18 - Memorandums of Interview - Complainants / Sources

18.1

18.2.

18.3.

18.4



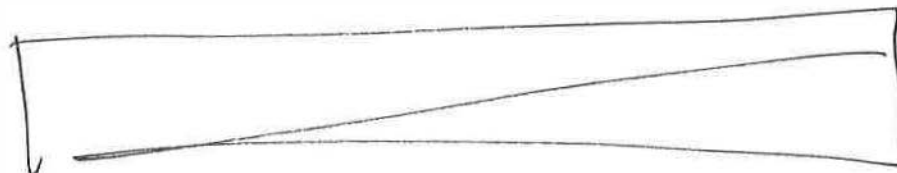
OS

18.5.  *dated 5/15/97, Complaint regarding Western Journalism Center*

(b)(7)(c)

19. Exhibit 19 - Memorandums of Interview - EO Representatives

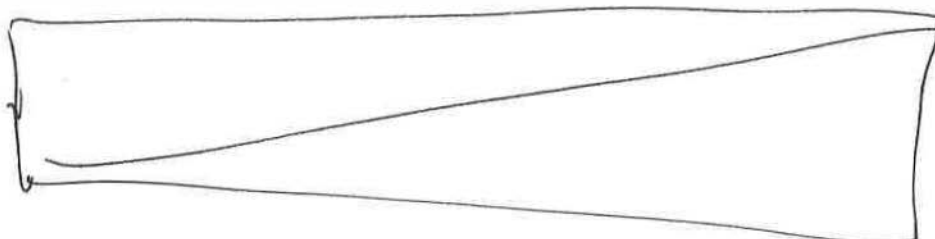
19.1



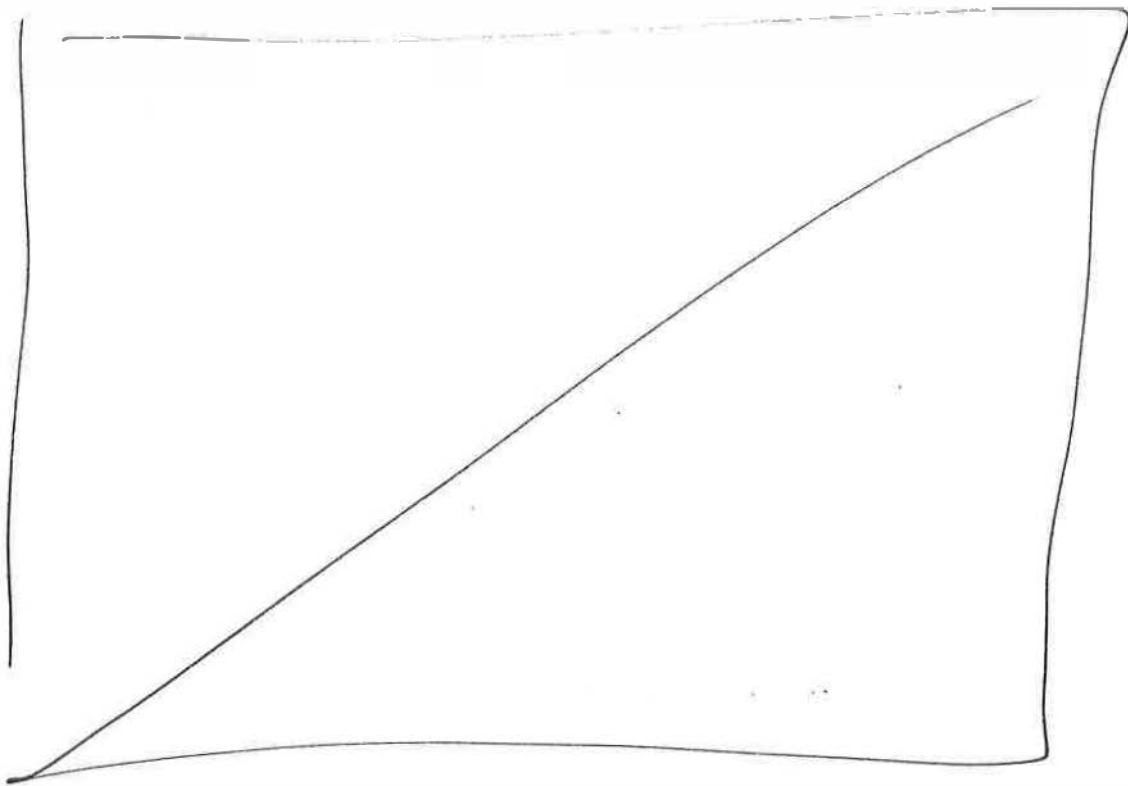
OS

19.2. *John Roux, CPA for Western Journalism Center, dated 5/22/97
regarding media article quoting Internal Revenue Agent Thomas
Cederquist*

20.



OS



OS

21. Exhibit 21 - Affidavits of Group Managers

21.1. _____ OS

21.2. _____ (b)(7)(C)

21.3. _____ } OS

21.4. _____

22. Exhibit 22 - Affidavits of Branch Chiefs

22.1. _____ OS

22.2. _____ (b)(7)(C)

23. Exhibit 23 - Affidavits of Division Chiefs

23.1. *Deane Cox*

23.2. *Teny Franklin*

23.3. *Rosie Slaughter*

23.4.

23.5.

OS

24. Exhibit 24 - Affidavits of Regional Chief Compliance Officers

24.1.

24.2.

24.3.

} OS

(b)(7)(c)

25. Exhibit 25 - Affidavits of IRS District Directors

25.1.

25.2.

25.3. Steven Jensen

OS

OS

26. Exhibit 26 - Affidavits of IRS Regional Commissioners

26.1. Marilyn Day

26.2.

26.3.

OS

OS

27.

28.

OS

29. Exhibit 29 - Affidavits of EP/EO National Office Employees

29.1. *Steven Miller, Special Assistant to Assistant Commissioner*

29.2. *Marcus Owens, Director*

29.3. *Evelyn Petschek, Assistant Commissioner*

30. Exhibit 30 - Affidavits of National Office IRS Executives

30.1. *Michael Dolan, Deputy Commissioner*

30.2. *James Donelson, Acting Chief Compliance Officer*

30.3. *Margaret Richardson, Commissioner*

31. Exhibit 31 - Procedures and Practices

31.1. *Examinations*

31.2. _____

31.3. *Treasury Department, Administration and Congressional Correspondence*

31.4. *Initial contacts with taxpayers - reason for examinations*

05

Assistant Commissioner Memorandum

Internal Revenue Service memorandum

date: JAH 30 1997
to: Chief Inspector I
from: Assistant Commissioner
(Employee Plans and Exempt Organizations) EP:E
subject: Allegations Concerning Case Selection and Disclosure of
Taxpayer Information

30
9701112

[Signature]

In recent weeks, there have been a number of media reports, including editorials, critical of the examination selection process in EP/EO. The concerns raised in the articles include allegations of intervention in the process to target specific taxpayers for political purposes, as well as allegations that our exam selection process is either improperly selecting cases or is otherwise susceptible to manipulation by third parties who refer only one side of the political spectrum.

These allegations have been made in Congressional correspondence as well. In separate letters, Chairman Archer has questioned our activities in connection with a number of cases.

[Redacted]

05

While we have no information indicating improper behavior by any Service employee, we are bringing the allegations to your attention because of the gravity of charges. Please be advised that we have underway a general review of best practices in our exempt organizations exam selection process. This study is being undertaken, among other reasons, due to the restructuring of our field offices, revision of the Internal Revenue Manual, and roll-out to the field of a new computer system for returns classification.

Chief Inspector I

Attached are copies of the following media reports, editorials, as well as certain Congressional correspondence and our responses. Note that similar reports have appeared elsewhere in the media.

Washington Times articles entitled:

IRS audits target conservative groups, 1/17/97

Rightist group hit by surprise audit, 1/30/97

OS

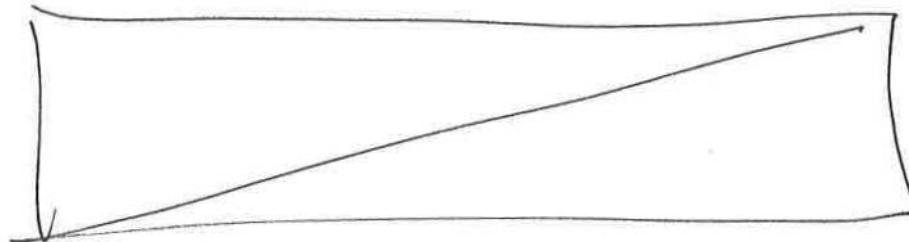
Wall Street Journal editorials entitled:

Politics and the IRS, 1/9/97

Wall Street Journal--Op Ed piece by Joseph Farah
The White House Plays Politics with the IRS,
10/22/96

OS

Washington Times editorial entitled:
What's up at the IRS? 1/97



OS

If you or your staff have any questions, please contact me or Steven Miller at 622-6700.

Attachments

Washington Times Articles

"IRS Audits Target Conservative Groups"- 1/17/97

IRS audits target conservative groups

Liberal nonprofits escape scrutiny

By Rowan Scarborough
THE WASHINGTON TIMES

The Internal Revenue Service is conducting intrusive audits of high-profile conservative think tanks and advocacy groups, some of which are named as "enemies" in Internal Clinton administration documents.

A spot survey of right-of-center nonprofit groups shows at least seven being scrutinized by the IRS, which can revoke an organization's tax-exempt status and essentially put it out of business.

A comparable check of prominent liberal groups found no such scrutiny.

A government source said congressional aides have made preliminary inquiries with the IRS. Based on a review of files, the

aides have left open the possibility that groups are being targeted based on their ideology.

Among those under investigation are the Heritage Foundation, Citizens Against Government Waste, the National Rifle Association and a group headed by one of the Republican Party's most outspoken figures. That group has declined to go public about the audits, which began shortly after President Clinton took office in January 1993 and continue today.

All the organizations have one thing in common: They actively oppose Clinton policies.

The IRS is headed by Margaret Milner Richardson, a former corporate tax lawyer and a close friend of first lady Hillary Rod-

see IRS, page A20

IRS

From page A1

born Clinton's Mrs. Richardson worked on the 1993 Clinton campaign and plans to leave the IRS when a new administration is named.

"There should be a full-scale congressional investigation and hearings to determine whether the Clinton administration has polluted the IRS audit process," said Mark Levin, the president of the Landmark Legal Foundation, a conservative watchdog group.

"I think it's significant that the organization mentioned in the White House memo's 121-page 'summary' document are being audited today," he said. "This administration has demonstrated to the point that it is more than willing to use the law enforcement apparatus to punish perceived enemies."

Don Lefkowitz, an IRS spokesman for the Washington area, said politics play no role in the agency's audit decisions.

"I would assume your readers understood part of the job of the IRS is not only to audit profit-making corporations, but also nonprofit organizations who enjoy the privilege of not paying taxes," he said. "The law requires that those organizations be audited periodically to determine if they merit

that kind of treatment."

In a 1996 Internal White House report, the agency's office should not use of those groups as being hostile to the Clinton and Republican administration reports about Mrs. and Mrs. Clinton.

The Western Journalism Center was prominently named. The center has promoted reports depicting that White House Deputy Counsel Timothy R. Pender is part of a self-inflicted gunshot.

Western Journalism's director, Joseph Parsh, said IRS agents began auditing his bank last summer but said they asked questions completely unrelated to the issues, such as the center's relationship with reporter Christopher Buckley, who has written a number of reports criticizing the police probe by Mrs. Clinton's bank.

Mr. Parsh denied any agent or telling the center's accountant, "Look, this is a political case, and the document about your tax-exempt status will be made of the national level."

In a memo with IRS officials last week, Mr. Parsh said, a separate audit of the agency only meant the Washington headquarters would have to answer "unrelated questions."

On Oct. 23, Mr. Parsh was published the audit with an opinion piece in the *Wall Street Journal*. "They were looking after me, and I didn't want to go down quickly,"

"I've been sort of reluctant to say the IRS national office would involve itself in politically motivated audits. I'm not sure."

— Lawyer Alan Dye

he said.

Mr. Parsh said that after his column was published, the IRS moved up and stopped demanding so many documents.

On Mr. Clinton's appointment of a campaign worker to run the IRS, Mr. Parsh said, "If you wanted to publish the Internal Revenue Service, the [Mrs. Clinton] would not grant it."

Phil Truback, the Heritage Foundation's executive vice president, said IRS agents began an audit in the fall after Democrats complained that GOP presidential candidate Bob Dole signed a Washington Post column.

Like the Western Journalism Center, Heritage is mentioned in the White House's conspiracy report. The report said the bank took too long to respond to the audit and that the report portrayed as a behind-the-scenes GOP power broker.

Groups such as Heritage and Western Journalism, described as "rightist" groups by the IRS, are prohibited from partici-

pating in partisan politics.

Mr. Truback said the Dole letter represented a long-standing position. A celebrity signs a letter and gets the mailing list of everyone who responds.

"We are not oversteering anything wrong with this," he said. "It's been standard business operation. And there is nothing wrong with it."

The IRS agents mentioned seeing a wire service report on the Democratic candidate, Mr. Truback said. "They tell us they sit back and read these things in the paper, and if they think they might be looking at it, they look into it."

About the IRS motive, he said: "You just have to get into it. You're going to get into any organization any way or the other. It's not prudent to do that."

A spokesman for a nonprofit group run by a nationally known Republican declined to discuss its audit for fear of antagonizing the IRS. The spokesman said the IRS began two months after Mr. Clinton took office and has not met the

group more than \$200,000 in legal

"All of a sudden, the money just came out, you have to be more careful about it," the spokesman said. "I would say the IRS probably knows more about it than they do. They can probably find you down for two years because there is no statute of limitations for them to finish."

Bill Powers, a spokesman for the National Rifle Association, said the IRS began auditing the politically powerful group in February 1995.

The NRA is a frequent target of liberal Democrats, who partly blame the gun-rights group for the Republican takeover of Congress in the 1994 elections.

Rich Wenderst, a certified public accountant in Manhattan whose clients include conservative and liberal advocacy groups, said two of his conservative clients are being audited and are in about to be. He said none of his conservative or liberal organizations is the subject of an IRS audit.

As to the Heritage probe, Mr. Wenderst said, tax agents are looking at the conservative group's practice of using politicians to sign fund-raising letters. He declined to identify the groups.

"My clients are thinking, 'Why was it OK in a previous audit and it's not OK now?'" he said. "There's no reason to believe that the IRS is going to change the law."



Margaret Lindsay Richardson

When it comes to civil feeding with public policy, I have my doubts on what is separating them either, no matter who is involved."

Washington lawyer Alan Dye represents two conservative nonprofit groups under audit. He declined to identify them. "I've been sort of reluctant to say the IRS national office would involve itself in politically motivated audits," he said. "I'm not sure."

"Rightist Group Hit By Surprise Audit"- 1/30/97

1/30/97

The Washington Times

NATION

Rightist group hit by surprise audit

Helped defeat health care plan

By Bowen Scarborough
The Washington Times

A conservative public policy group active in turning public opinion against President Clinton's 1994 health care bill found itself audited by the Internal Revenue Service after the legislation died in Congress.

The group is the latest right-of-center group to disclose it came under IRS investigation after opposing White House policy.

The surprise audit of the National Center for Public Policy Research was the first in the group's 14-year history, said Amy Morris Ridenour, its president.

Mrs. Ridenour quoted the IRS auditor as saying he did not know the reason the audit was ordered but guessed that someone had filed a "political complaint."

"I asked how we got to be audited, and he came back with 'Somebody probably didn't like what you were doing,'" Mrs. Ridenour said. "That's when I followed up with, 'You mean it's political?' And then he said, 'Right, probably, but my boss tells me to go audit people. I don't always find out why.'"

Other anti-Clinton advocacy groups now under audit are the

Heritage Foundation; the National Rifle Association; Citizens Against Government Waste; Freedom Alliance, an advocacy group headed by Oliver North; and various policy groups linked to House Speaker Newt Gingrich, Georgia Republican.

The IRS launches audits based on media stories or complaints from an organization's political opponents. Conservatives say this puts them at a disadvantage, since the liberal media tends to put the spotlight on conservative groups for investigative stories.

Sen. Don Nickles, Oklahoma Republican and chairman of the Senate Finance subcommittee on taxation and IRS oversight, said plans to discuss IRS auditing with Treasury Secretary Robert E. Rubin.

"Certainly, the IRS has a responsibility to conduct audits, but not just against political enemies or political adversaries of this administration," Mr. Nickles said on "Fox News Sunday." "And I hope that the IRS has not been politicized."

Public Policy Research was especially irksome to the White House in 1994. The group prepped influential radio talk-show hosts on how to beat Mr. Clinton's ambitious health care plan, churning out anti-Clinton faxes headlined "Scoop."

"We've been in business since 1982," Mrs. Ridenour said. "We had never had an audit. We never

had even an inquiry from the IRS, and suddenly we had a full audit."

"I am surprised because of the timing of our audit and because of the other groups I hear about," she added. "My conclusion is we should all go public, so if there is a pattern, we should all be able to recognize it. I hope the House and Senate will have hearings and look into it. And if there's nothing there, then there's what we'll find."

Mrs. Ridenour said that after the Clinton plan failed in October 1994, the center continued to criticize the president's environmental policies. Near the end of 1995, the IRS showed up.

She said the center, with only seven employees and a \$2 million annual budget, keeps "clean" books. The IRS auditor did his work quickly and found no discrepancies, she said.

Joseph Parsh, head of the Western Journalism Center in Sacramento, Calif., said the IRS auditor who looked at his books was more blunt. The auditor told the center's accountant the probe was a "political case" and that the final decision on its tax-exempt status would be made in Washington, not the regional office.

Mr. Parsh and the center are prominently mentioned in an internal White House report, "Communication Stream of Conspiracy Commerce." Drafted in the White House counsel's office, the 1995 document alleges a conservative conspiracy among some think

tanks and reporters to spread damaging stories about the president and first lady Hillary Rodham Clinton. The Heritage Foundation is also cited.

Western Journalism, like Public Policy Research, Heritage and Mr. North's group, is designated a 501(c)(3) by the IRS. Donations are tax-deductible as long as the organization refrains from engaging in political campaigns.

A spot survey of groups generally favorable toward Mr. Clinton showed none had been audited in recent years. They are: Handgun Control Inc. and a related foundation, the Brookings Institution; Americans United for Separation of Church and State; the Sierra Club; Ralph Nader's Public Citizen; the Democratic Leadership Council, which was once headed by Mr. Clinton; and an affiliated foundation.

The IRS denies that politics play any role in choosing which nonprofit groups are probed.

In a letter to Rep. Charles B. Rangel, New York Democrat, Deputy IRS Commissioner Michael P. Dolan said audit selection "is based largely ... on issues raised in media reports and third-party communications."

"The service has examined and will continue to examine all types of tax-exempt organizations that may engage in political campaign activities, regardless of political affiliation," Mr. Dolan said.

REVIEW & OUTLOOK

Politics and the IRS

IRS Commissioner Margaret Mitter Richardson's news that she will step down should prompt Congress to take a serious look at this troubled—and troubling—tax-collection agency.

A reminder of how much raw power the IRS has was brought home last week with the release of some tapes of Richard Nixon's White House conversations. Nixon told his staff in 1971 that he wanted to appoint an IRS commissioner who "is a ruthless son of a bitch, that he will do what he's told, that every income tax return I want to see I see, that he will go after our enemies and not go after our friends." Nixon was convinced the Kennedy Administration had improperly investigated prominent Republicans, including himself, and he was bent on payback. Luckily, IRS commissioner Johnnie Walters ignored Nixon's wishes and turned over a copy of his "enemies' list" to Congressional investigators.

We wish we could be completely confident the days of questionable IRS practices are over. In 1993, unfounded rumors that UltraAir, a charter company used by the White House Travel Office, engaged in kickbacks to secure government business prompted then Associate White House Counsel William Kennedy to say he'd call the IRS to get some auditing expertise. A week later, IRS auditors showed up at UltraAir to conduct a full-scale audit. The IRS denies it had any contact with the White House; its agents told UltraAir officials they'd read about the controversy in the newspapers. UltraAir was finally cleared of wrongdoing after a two-year audit of its finances.

More recently, there have been charges that IRS audits of certain 501(c)(3) nonprofit organizations have been politically motivated. Joseph L'wrali, a former editor of the Sacramento Union, says the Western Journalism Center that he runs is being audited after it was the only news outlet mentioned in a White House "action plan" on how to deal with administration scandals. In a meeting, the Center's accountant questioned why IRS examiners wanted documents "related to the selection of Christopher Ruddy as an investigative reporter and how the topic of Whitewater was selected." According to Mr. Parash, IRS Field Agent Thomas Cedergust said, "Look, this is a political case, and it's going to be decided at the national level." The IRS denies it has any political motives behind its audit decisions.

Nonetheless, the Landmark Legal Foundation this week announced it will monitor complaints about IRS audits. It points to published reports that the National Rifle Association, the Heritage Foundation and other conservative groups are also the targets of IRS investigations. The conservative American Center for Law and Jus-

tice has gone further and sued the IRS. It contends the agency singled out a conservative New York church and revoked its tax-exempt status because it engaged in politics by taking out a 1992 newspaper ad that criticized Bill Clinton. Center attorneys claim Methodist and Episcopal churches frequently raise money for liberal candidates, but are never sanctioned.

There are also concerns about the privacy of IRS records. Last Sunday, Rep. Charles Rangel, the ranking Democrat on the House Ways and Means committee, announced on "Face the Nation" that he had "been in touch with the IRS" and that it was conducting "an ongoing investigation" of charitable groups associated with Speaker Newt Gingrich. Rep. Bob Barr, a former federal prosecutor, has fired off a letter to Attorney General Janet Reno. "Taking Rep. Rangel at his word, he has violated section 6103 of the Internal Revenue Code, which prohibits the disclosure of confidential tax information, and is a felony." Presumably the IRS made it clear to Mr. Rangel how important it is that such information be kept confidential.

Many of those concerned about the IRS can't be dismissed as partisans. Shelley Davis, who served for seven years as the IRS's first and only historian, says that Commissioner Richardson, a friend of First Lady Hillary Clinton and frequent contributor to Democratic candidates, has politicized the agency. In her new book, "Unbridled Power: Inside the Secret Culture of the IRS" (Harper-Collins), she notes that only two outsiders have ever been brought in to fill senior positions at the IRS. She told us this insularity has created a "paranoid culture of secrecy" within the agency, which is largely "untouchable because of its power."

Christopher Bergen, the editor of the tax practitioners' journal *Tax Notes*, accuses the IRS of having "a bunker mentality." "It may even be an agency in danger of going out of control," he told the *National Journal*. Such concerns prompted Congress to create the National Commission on Restructuring the IRS, which meets today in Washington. Commission members come from both the government and private sector and are charged with finding ways to "ensure the IRS is effective and user-friendly."

An essential element in reforming the IRS is to erect greater safeguards that the tax laws are administered without regard to the prejudices of any sitting Administration. When President Clinton sends up a new nominee to replace Commissioner Richardson, we hope Congress makes clear it wants the new head of the IRS to follow the example of Johnnie Walters, the Nixon IRS commissioner, who scrupulously avoided mixing politics with 1040 forms.

Washington Times Articles

"IRS Audits Target Conservative Groups"- 1/17/97

IRS audits target conservative groups

Liberal nonprofits escape scrutiny

By Rowan Scarborough
THE WASHINGTON TIMES

The Internal Revenue Service is conducting intrusive audits of high-profile conservative think tanks and advocacy groups, some of which are named as "enemies" in Internal Clinton administration documents.

A spot survey of right-of-center nonprofit groups shows at least seven being scrutinized by the IRS, which can revoke an organization's tax-exempt status and essentially put it out of business.

A comparable check of prominent liberal groups found no such scrutiny.

A government source said congressional aides have made preliminary inquiries with the IRS. Based on a review of files, the

aides have left open the possibility that groups are being targeted based on their ideology.

Among those under investigation are the Heritage Foundation, Citizens Against Government Waste, the National Rifle Association and a group headed by one of the Republican Party's most outspoken figures. That group has declined to go public about the audits, which began shortly after President Clinton took office in January 1993 and continue today.

All the organizations have one thing in common: They actively oppose Clinton policies.

The IRS is headed by Margaret M. Miller Richardson, a former corporate tax lawyer and a close friend of first lady Hillary Rod-

see IRS, page A20

IRS

From page A1

house Clinton's Mrs. Richardson worked on the 1993 Clinton campaign and plans to leave the IRS when a new commissioner is named.

"There should be a full-scale congressional investigation and hearings to determine whether the Clinton administration has politicized the IRS audit process," said Mark Levin, the president of the Landmark Legal Foundation, a conservative watchdog group.

"I think it's significant that of the organizations mentioned in the White House memo's 211-page 'unwanted document' are being audited today," he said. "This administration has demonstrated in the past that it is more than willing to use the law enforcement apparatus to punish perceived enemies."

Don LaPied, an IRS spokesman for the Washington area, said politics play no role in the agency's audit decisions.

"I would assume your readers understand part of the job of the IRS is not only to audit profit-making corporations, but also non-profit organizations who enjoy the privilege of not paying taxes," he said. "The law requires that those organizations be audited periodically to determine if they merit

that kind of treatment."

In a 1996 Internal White House report, the memo's office singled out two of those groups as being hostile to Mr. Clinton and responsible for misreporting reports about him and Mrs. Clinton.

The Western Journalism Center was previously named. The center has previously reported that the White House Deputy Counsel Vincent W. Foster Jr. filed a self-inflicted gunshot.

Western Journalism's director, Joseph Parsh, said IRS agents began meeting his books last summer. He said they asked questions seemingly unrelated to tax issues, such as the center's relationship with reporter Christopher Smiley, who has written a number of reports criticizing the police probe into Mr. Foster's death.

Mr. Parsh quoted one agent as telling the center's accountant, "Look, this is a political case, and the decision about your tax-exempt status will be made at the national level."

In a meeting with IRS officials last week, Mr. Parsh said, a reporter said the agent only meant the Washington headquarters would have to answer "technical questions."

On Oct. 22, Mr. Parsh went public about the audit with an opinion piece in the Wall Street Journal. "They were coming after me, and I didn't want to go down quietly,"

"I've been sort of reluctant to say the IRS national office would involve itself in politically motivated audits. I'm not sure."

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Mr. Parsh said that after his column was published, the IRS came up and stopped demanding as many documents.

On Mr. Clinton's appointment of a campaign worker to run the IRS, Mr. Parsh said, "If you wanted to politicize the Internal Revenue Service, this [Mrs. Richardson] was a great choice."

Phil Truback, the Heritage Foundation's executive vice president, said IRS agents began an audit in the fall after Democrats complained that GOP presidential candidate Bob Dole signed a Black-tie fund-raising letter.

Like the Western Journalism Center, Heritage is mentioned in the White House's memorandum. The report said the White House took this line to mislead the Heritage Foundation, which the report portrays as a biased, anti-GOP power broker.

Groups such as Heritage and Western Journalism, designated as 501(c)(3) nonprofit groups by the IRS, are prohibited from partici-

pating in partisan politics.

Mr. Truback said the Dole letter represented a long-standing practice: A celebrity signs a letter and gets the mailing list of everyone who responds.

"He was his own stupidest thing wrong with this," he said. "It's been standard business operations. And there is nothing wrong with it."

The IRS agents mentioned seeing a wire service report on the Democratic complaints, Mr. Truback said. "They let us say it back and read those things in the paper, and if they think they ought to look into it, they look into it."

About the IRS motives, he said: "I'm not going to get into it. I'm not going to get into my speculation one way or the other. It's just prudent to do that."

A spokesman for a nonprofit group run by a nationally known Republican declined to discuss its audit for fear of antagonizing the IRS. The spokesman said the probe began two months after Mr. Clinton took office and has cost the

group more than \$200,000 in legal fees.

"All of a sudden, the houses you take care, you have to be more careful about," the spokesman said. "I would say the IRS probably knows more about you than you think you do, they can probably shut you down for two years because there is no disclosure for those to finish."

Bill Powers, a spokesman for the National Rifle Association, said the IRS began auditing the politically powerful group in February 1995.

The NRA is a frequent target of liberal Democrats, who partly blame the gun-rights group for the Republican takeover of Congress in the 1994 elections.

Rich Handwerker, a certified public accountant in Missouri whose clients include conservative and liberal advocacy groups, said two of his conservative groups are being audited and one is about to be. He said none of his liberal or liberal organizations is the subject of an IRS audit.

As in the Heritage probe, Mr. Handwerker said, IRS agents are looking at the conservative groups' practice of using politicians to sign fund-raising letters. He declined to identify the groups.

"My clients are thinking, 'Why was it OK in a previous audit and it's not OK now?'" he said. "There hasn't been any legislative action by Congress to change the laws...."



Margaret Miller Richardson

When it comes to false dealing with public policy, I have my question on what is motivating them. What, no matter who is involved.

Washington lawyer Alan Dye represents two conservative nonprofit groups under audit. He declined to identify them. "I've been sort of reluctant to say the IRS national office would involve itself in politically motivated audits," he said. "I'm not sure."

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1/30/97

The Washington Times

NATION

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Helped defeat health care plan

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Public Policy Research was especially irksome to the White House in 1994. The group prepped influential radio talk-show hosts on how to bash Mr. Clinton's ambitious health care plan, churning out anti-Clinton faxes headlined "Scorp."

"We've been in business since 1982," Mrs. Ridenour said. "We had never had an audit. We never

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"I am surprised because of the timing of our audit and because of the other groups I hear about," she added. "My conclusion is we should all go public, so if there is a pattern, we should all be able to recognize it. I hope the House and Senate will have hearings and look into it. And if there's nothing there, then that's what we'll find."

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"The service has examined and will continue to examine all types of tax-exempt organizations that may engage in political campaign activities, regardless of political affiliation," Mr. Dolan said.

Wall Street Journal -- Op Ed By Joseph Farah.

The White House Plays Politics with the IRS, 10/22/96

Wall Street Journal --Op Ed by Joseph Farah. "

The White House Play Politics with the IRS", 10/22/96

WSD 10/22/96 p. A22 The White House Plays Politics With the IRS

By JOSEPH FARAH

When charitable organizations are targeted for Internal Revenue Service audits, the last thing their directors want to do is go public. IRS attention, after all, can frighten away those tax-deductible personal contributions and foundation grants that are the lifeline for a nonprofit. My organization, the Western Journalism Center, is currently being audited. But I'm going public, because the evidence suggests the White House is using the IRS as a political attack dog.

Just a month after Republicans won control of Congress in 1994, the Clinton White House drafted an action plan to deal with individuals and organizations raising questions about a series of administration scandals, from Travelgate to Whitewater. Associate Counsel Jane Sherburne wrote a memo naming names, outlining strategy and assigning staff to handle specific targets. The memo was made public only last month, when it was released to congressional investigators and excerpted on this page.

The Western Journalism Center was the only news organization targeted for action. We were singled out for supporting the investigative reporting of Christopher Ruddy, which has focused attention on questions and inconsistencies surrounding the death of White House Deputy Counsel Vincent Foster.

This July, just months after the IRS had given final approval to the center's tax-exempt status as a 501(c)(3) educational organization, we were audited for the first

time in our five-year history. When the examiner met with our accountants, it became clear the IRS was not concerned with our bookkeeping procedure or fundamental techniques, but, rather, with our choice of investigative reporting projects.

When our accountant questioned the direction, extent and propriety of the probe, IRS Field Agent Thomas Cederquist blurted, "Look, this is a political case, and it's going to be decided at the national level."

Among the thousands of documents demanded of the center for that political decision are all those related to the selection of Christopher Ruddy as an investigative reporter and how the topic was selected. The IRS also wants to know who served on the review committee to choose the Foster project, what kind of peer-review process was employed in his selection, what of our projects were considered and why our advertisements don't present "opposing viewpoints."

Why do I assume a connection between the White House targeting of the Western Journalism Center in December 1994 and the IRS audit in 1996? For one thing, the Sherburne memo listed our organization as the "Western Center for Journalism." That is, indeed, our official legal name. But it's strange that the White House would use it. It appears nowhere in our ads, in our brochures, on our letterhead or in any of the dozens of news stories that have been written about us. It does appear in one place in Washington, D.C.—in our official filings with the Internal Revenue Service.

The IRS isn't the only federal agency harassing the Western Journalism Center. Days after *The Wall Street Journal* named several of our donors in a 1995 news story, one of them—the founder of a publicly traded international corporation heavily reliant on federal contracts—received a call from Energy Secretary Hazel O'Leary. He says Mr. O'Leary told him his company's government business would be in jeopardy if he continued to support the

Western Journalism Center. The warning was effective: He has not donated any money since.

Given the history of government harassment of the center and its contributors, perhaps you can understand my reluctance to turn over to the IRS all of the center's correspondence for 1995, as I have been asked to do. Imagine the chilling effect compliance would have on our fund-raising efforts, not to mention our ability to protect confidential sources.

And the Western Journalism Center is not alone. The IRS is reportedly auditing or investigating other Clinton administration nemeses, including the National Rifle Association and the Heritage Foundation. Organizational leaders are understandably wary of discussing the matter. Although two Heritage sources say privately that their organization is being investigated by the IRS, senior public relations executives flatly state that no IRS audit or investigation is taking place. In addition, while currently auditing some state and local chapters of the Christian Coalition, the IRS has yet to rule on the tax-exempt status of the national organization after six years.

Coincidence? Maybe. But the unconstitutional harassment of the Western Journalism Center is a smoking gun that proves that the White House is manipulating the IRS for political purposes.

Mr. Farah, a former editor of the *Sacramento Union*, is founder and executive director of the Western Journalism Center.



Hazel O'Leary

Washington Times Editorial

“What’s Up At the IRS? - 1/97

**WORLD'S
GREATEST
DETERMINATION**

**THE UNIVERSITY OF ALABAMA
HEALTH SCIENCES CENTER
BIOCHEMISTRY DEPARTMENT
APPROVED BY: [Signature]**

PRESTON L. BARNETT, Deputy Sheriff, Sheriff's Office
TROY AONES, Bureau Traffic
JOSEPH W. BOURN, Captain & Coordinator



ROBERT K. BOWEN, the Austin Council; RONALD L. GORDON, the Austin District Coordinator; Gay Beardsley, District Coordinator; and MICHAEL E. WOOD, District Chair.

**CHAD WALKER, Deputy State
Attorney General, Acting As
Chief Assistant, Public As-
sessment Commission, Deputy As-**

What's up at the IRS?

[illegible]

For all the chattering at least two of them are called fifth-year grunts that figured prominently in the 1980s Hanoi captivity report aren't hanging at all. As The Washington Times' Bennett has pointed out, the Pentagon's official position on the Vietnam War captives, perhaps best summed up by the phrase "We don't know what happened to them," has been undergoing a long-term transformation. Service families that threaten their own

Moreover, they are merely two members of a growing list of organizations that seem to have given Chicago its cosmopolitan, if not generally cosmopolitan, reputation to Clinton public and city officials as targets of the IRS. Other organizations answering to IRS agents include Citizens Against Government Waste, which has opposed the president's budget policies, and the National Rifle Association, which — well, you know, Mr. Scarborough built at least one other organization featuring a prominent Republican and conservative Christian while going very well beyond that who decided to reward its name for four of IRS' members. In a past survey of his press organizations on how the left and the right, Mr. Scarborough was unable to locate a single left-leaning group supporting the speech of that left.

For concern raised by these multiple instances, hardly either the personal evidence in the White House's media-conspiracy report, *After all, the*

[illegible][illegible]

October 24, 1996 and Response

ONE HUNDRED FOURTH CONGRESS
BILL AMERICA, TEXAS, CHAIRMAN

PHILIP CRANE, ILLINOIS
BILL TROTT, CALIFORNIA
E. CLAY BARRY, JR., FLORIDA
NANCY L. JOHNSON, CONNECTICUT
JIM BURNETT, KENTUCKY
SANDY HOGGARTH, NEW YORK
WALLY HERGER, CALIFORNIA
JIM MCCREARY, LOUISIANA
JIM BARNES, MISSISSIPPI
DAVE CAMP, MICHIGAN
JIM RAMSTADT, MINNEAPOLIS
DICK DURBIN, NEW JERSEY
JIM INHILL, IOWA
KAM JOHNSON, TEXAS
JENNIFER DUNN, WASHINGTON
BAC COLLINS, GEORGIA
BOB PORTMAN, OHIO
JERRY HAYES, LOUISIANA
BRIAN LARSEN, TEXAS
PHILIP S. CHAPMAN, PENNSYLVANIA
JOHN CHURCH, NEVADA
JOHN CROWLEY, MISSOURI

KEVIN M. BRIDGES, FLORIDA
CHARLES E. BARNES, NEW YORK
JONATHAN P. STARR, CALIFORNIA
ANDY JACOBS, JR., INDIANA
NANCY E. FORD, TENNESSEE
BONNET T. MATTHEW, CONNECTICUT
BENJAMIN L. CARDIN, MARYLAND
JIM MCCORMACK, WASHINGTON
GERALD D. BLEDER, MISSISSIPPI
JOHN LEWIS, GEORGIA
L.F. PAYNE, VIRGINIA
RICHARD E. NEAL, MASSACHUSETTS
RICHARD D. SHULTZ, NEW YORK

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6348

October 24, 1996

RECEIVED
53 OCT 25 PM 12:06
UNITED STATES
OFFICE OF THE
ATTORNEY GENERAL

The Honorable Margaret Milner Richardson
Commissioner,
Internal Revenue Service
1111 Constitution Ave., N.W.
Washington, DC 20224

Dear Commissioner Richardson:

Recent press reports have suggested that there may be political motivations for certain Internal Revenue Service audits and investigations. Because taxpayer confidence in the fairness and impartiality of the tax system is crucial to compliance, I must take seriously any responsible allegations that the Internal Revenue Service is violating its public trust by targeting opponents of the Clinton Administration for scrutiny.

A Wall Street Journal story (October 22, 1996) entitled "The White House Plays Politics With the IRS" raises concerns about the manner in which an investigation of the Western Center for Journalism was begun. It also reports that an IRS field agent referred to the investigation as a "political case."

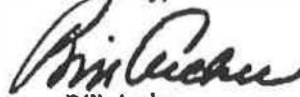
In order to examine the serious questions raised by these stories, I hereby request the Internal Revenue Service to supply me with all background relating to the Western Center for Journalism investigations. In particular, I am requesting all documents including, but not limited to, files, tax returns, notes, telephone logs, memoranda, records of internal IRS communications, and records of communications with non-IRS administration officials relating to these

-2-

two examinations. I would also like a list of all Internal Revenue Service employees who are now, or have previously, worked on these matters.

Please let me know by November 1, 1996 when you anticipate being able to provide the information requested. I recognize that this is an extensive information request and that you may need more than just a few days to gather the requested information. However, because serious questions have been raised concerning the impartiality of the Internal Revenue Service, I am confident that you will want to supply the material as soon as possible.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bill Archer", written in a cursive style.

Bill Archer
Chairman

Response



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

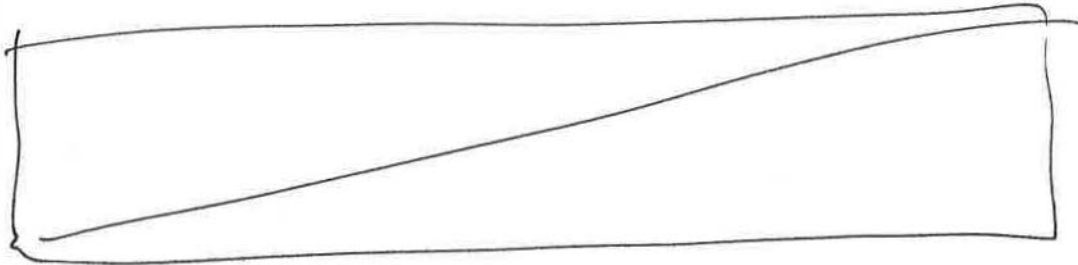
November 1, 1996

The Honorable Bill Archer
Chairman, Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515-0348

Dear Mr. Chairman:

Commissioner Richardson has asked me to respond to your letter dated October 24, 1996, in which you requested background documents, including tax returns relating to the examinations of _____ and the Western Center for Journalism. The following confidential tax information is being provided to you as Chairman, Committee on Ways and Means under the authority and limitations of section 6103(f)(1) of the Internal Revenue Code.

OS



OS

The Western Center for Journalism is recognized as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. The IRS Western Key District (EP/EO) in Los Angeles began an examination of the organization in September 1995. Shortly after our agent made contact with the taxpayer in 1996, the Center filed delinquent Forms 990 for 1994 and 1995. The examination is in the preliminary stages of development.

Floyd Williams, National Director, Legislative Affairs Division, Marc Owens, Director, Exempt Organizations Division and Dianne Grant, Senior Advisor to the Chief Compliance Officer met this afternoon with Philip Moseley and Tim Hanford of the

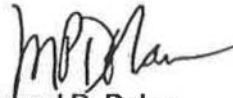
- 2 -

The Honorable Bill Archer

Committee staff to discuss your request. As a result of that meeting, our staffs agreed to future discussions on the time and place for providing the information requested on the Western Center for Journalism.

I hope this information is helpful. Please do not hesitate to contact me if I can be of further assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael P. Dolan", written in a cursive style.

Michael P. Dolan

Memorandum of Activity, dated 2/10/97

Type of Activity: <input type="checkbox"/> Personal Interview <input type="checkbox"/> Telephone Interview <input checked="" type="checkbox"/> Records Review <input type="checkbox"/> Other	Inspection Service Memorandum of Interview or Activity	Date and Time February 10, 1997
Activity or Interview of: <i>(Include all necessary data)</i> Analysis of information contained in January 30, 1997 memorandum from the A/C (EP/EO) to the Chief Inspector	Conducted by: Harry B. Odom Deputy ARI (IA), SER	Location Of Interview/Activity Regional Inspector's Office Atlanta, GA

Subject Matter/Remarks
Joint IA/IS Integrity Project
Questionable Exempt Organization
Examination Activities

IAMIS #97151.08
ISMIS #5-9702-0022

Joint IA/IS Integrity Project
Questionable Exempt Organization
Examination Activities
97151.08

Analysis of Information
Referral Document
from
Assistant Commissioner (Employee Plans and Exempt Organizations
Memorandum Dated January 30, 1997

A/C (EP/EO) Evelyn Petschek signed the memorandum dated January 30, 1997, addressed to Chief Inspector and entitled, "Allegations Concerning Case Selection and Disclosure of Taxpayer Information".

Memorandum referenced several media reports, including editorials, critical of the examination selection process in EP/EO. Concerns raised in the allegations include intervention in the process to target specific taxpayers for political purposes, as well as that the exam selection process is either improperly selecting cases or is otherwise susceptible to manipulation by third parties who refer only one side of the political spectrum. The newspaper articles from the Washington Times and the Wall Street

Name:
Questionable EO Examination Activity

Case Number:
5-9702-0022

Exhibit 2.1

Journal allege that the White House intervenes to have the IRS audit conservative think-tank organizations because of their opposition to the Clinton administration's liberal views on politics; some articles allege that exempt organizations connected to House Speaker Newt Gingrich also are targeted by the IRS for audit and possible revocation of their tax exempt status.

The A/C's memorandum states that these allegations have been made in Congressional correspondence in separate letters from Chairman Arche

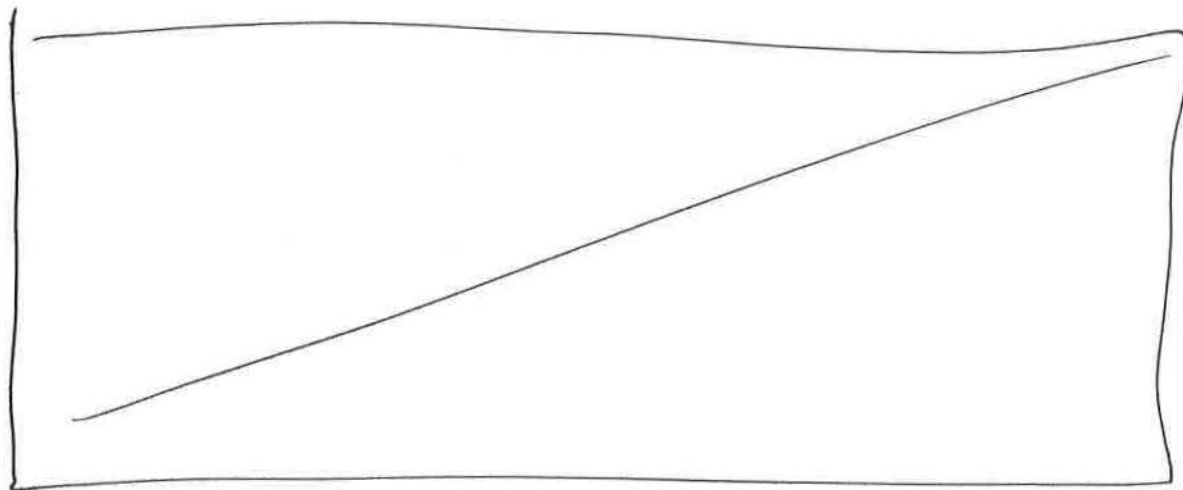
The A/C goes on to say that she has no information indicating improper behavior by any Service employee and she is bringing the allegations to the Chief Inspector's attention because of the gravity of the charges. The A/C also informs the Chief Inspector that they have underway a general review of best practices in the exempt organizations exam selection process, and that the study is being undertaken, among other reasons, due to the restructuring of their field offices, revision of the IRM and roll-out to the field of a new computer system for returns classification.

The A/C attaches media reports and Congressional correspondence. An analysis of those attachments follows.

Washington Times

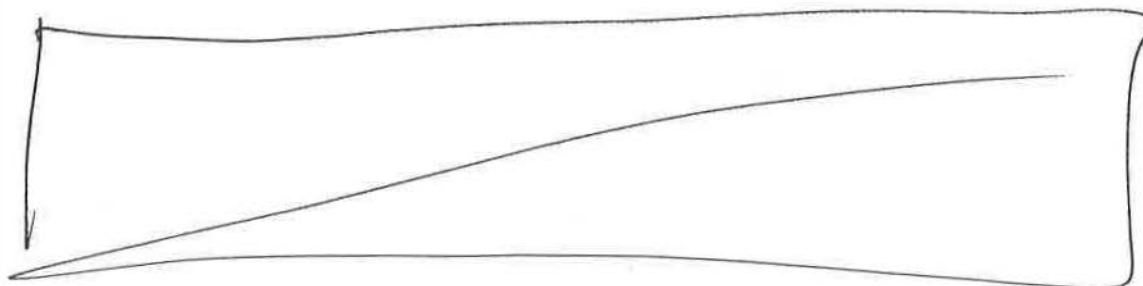
1/17/97 Writer: Rowan Scarborough

Article discussed several tax exempt conservative organizations that allegedly were scrutinized by the IRS because of their right-of-center political views, also stating that the IRS is headed by Margaret Milliner Richardson, former corporate lawyer and close friend of Hillary Rodham Clinton.



- Western Journalism Center

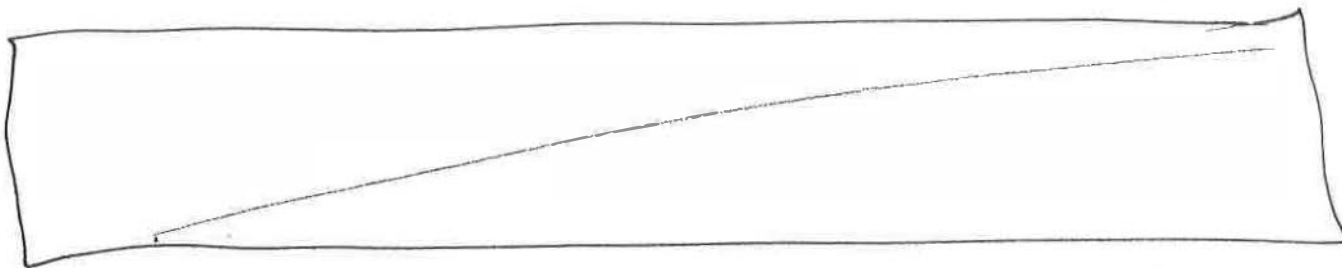
(article states IRS agent told t/p director that this was "political case" and that decision would be made at "national level"; article shows name of Joseph Farah as director of organization)



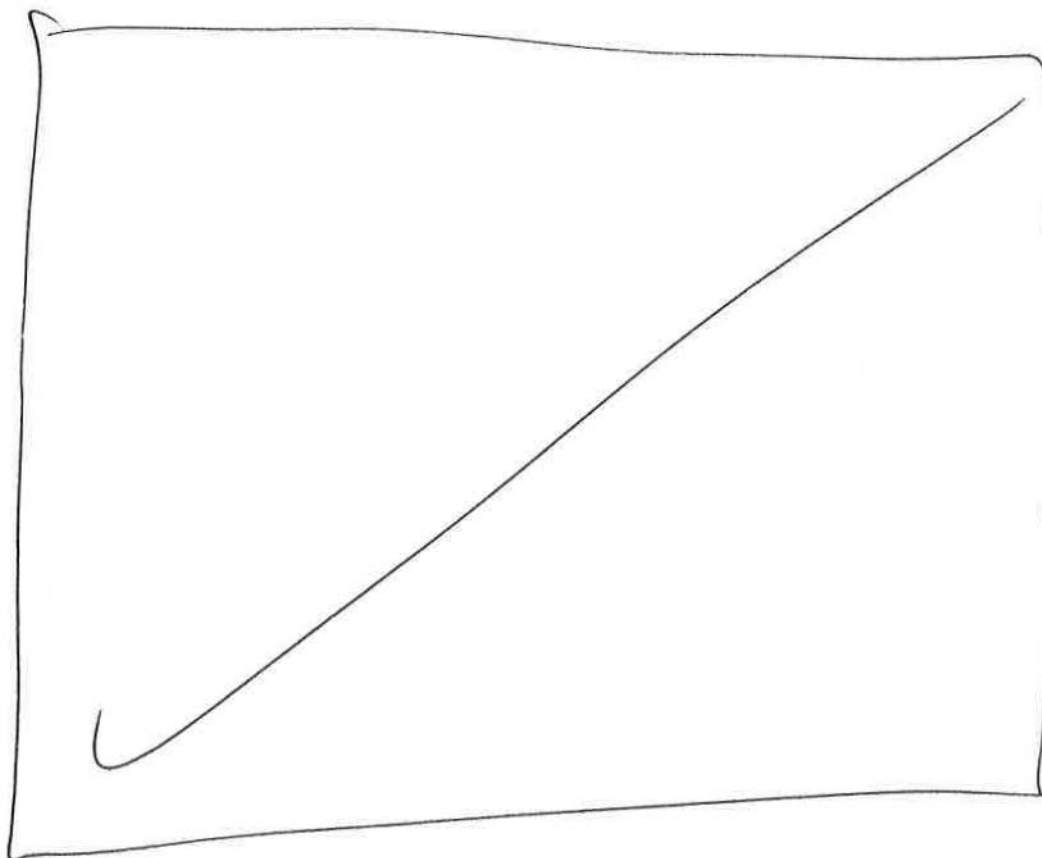
Name:
Questionable EO Examination Activity

Case Number:
5-9702-0022

Exhibit 2.1



- Western Journalism Center
(organization in Sacramento, CA; IRS auditor more blunt; said was "political case"; final decision to be made by Washington, not regional office. Article reports organization prominently mentioned in an internal White House report entitled "Communication Stream of Conspiracy Commerce", drafted in the White House in 1995; alleges a conservative conspiracy among some think tanks and reports to spread damaging stories about the President and first lady)



Wall Street Journal
10/22/96 Title:

Letter to Editor

Letter by Director, Western Journalism Center, citing IRS audit information and non-tax focus of IRS agent's questions.

Wall Street Journal
1/9/97 Title:

Politics and the IRS

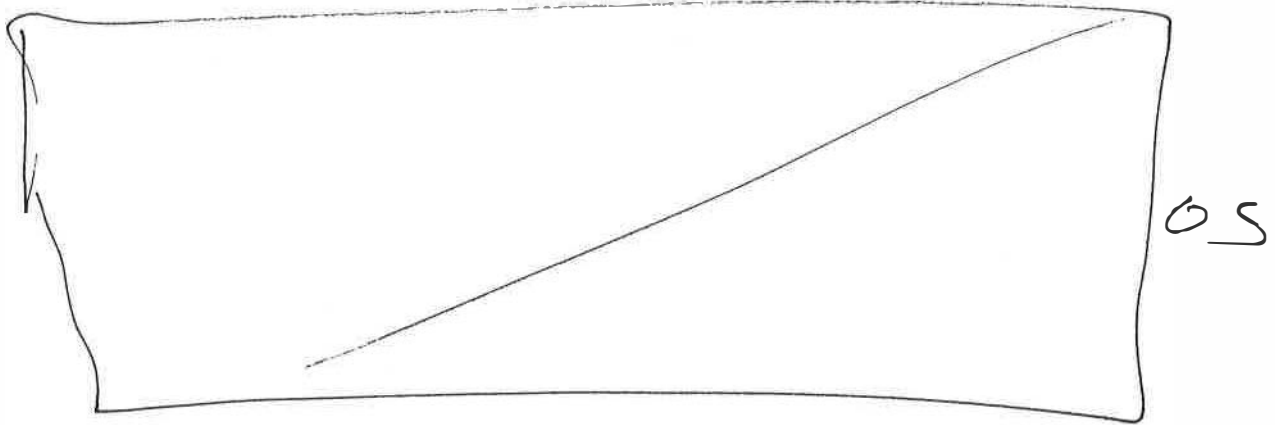
Article discusses Commissioner Margaret Milliner Richardson stepping down; discusses Nixon tapes recently released re use of IRS; discusses 1993 UltraAir two-year IRS audit, eventually with no

Name:
Questionable EO Examination Activity

Case Number:
5-9702-0022

Exhibit 2.1

findings; discusses Western Journalism Center; discusses Congressman Rangel potential ICR 6103 disclosure of IRS audit three weeks before t/p notified; discusses former IRS Historian allegations.



Name:
Questionable EO Examination Activity

Case Number:
5-9702-0022

Exhibit 2.1

Congressional Correspondence and IRS Responses

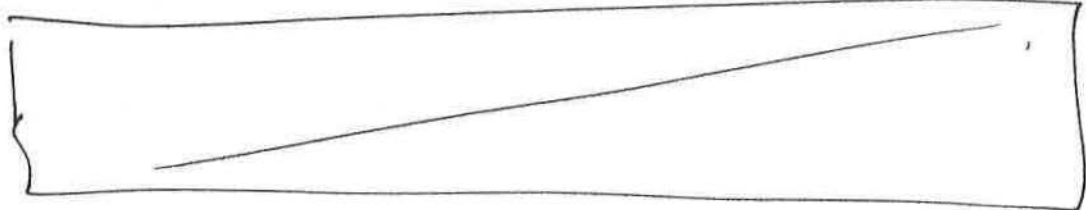
10/24/96 Congressman Bill Archer, Chairman, Committee on Ways and Means

Chairman Archer inquires about Wall Street Journal article of 10/22/96, re IRS auditing Western
Center for Journalism and Washington Times article 10/21/96 re audit of _____

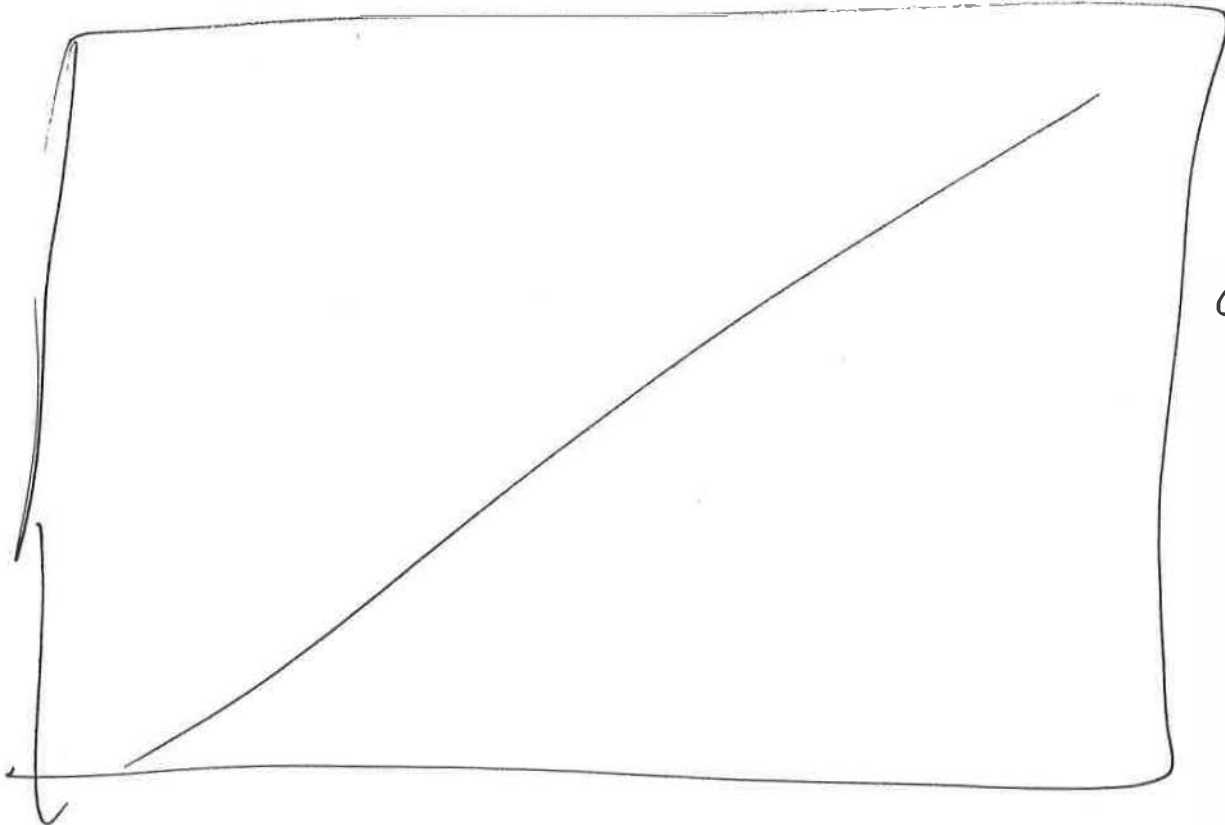
OS

IRS Responses

11/1/96 Deputy Commissioner, Michael P. Dolan



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OS

Name:
Questionable EO Examination Activity

Case Number:
5-9702-0022

Exhibit 2.1

Type of Activity: <input type="checkbox"/> Personal Interview <input type="checkbox"/> Telephone Interview <input checked="" type="checkbox"/> Records Review <input type="checkbox"/> Other	Inspection Service Memorandum of Interview or Activity	Date and Time 3/1/97
Activity or Interview of: (Include all necessary data) Review of media articles and congressional correspondence; detailed analysis to identify entities/individuals to include in our special inquiry.		Conducted by: Deputy ARI(IA) Harry B. Odom Location Of Interview/Activity Bailey's Crossroads VA IRS Office

Subject Matter/Remarks
Joint IA/IS Integrity Project
Questionable Exempt Organization
Examination Activities

IAMIS #97151.08
 ISMIS #5-9702-0022

Analysis of Media Articles
and
Congressional Correspondence
for
Allegations Re Exempt Organizations

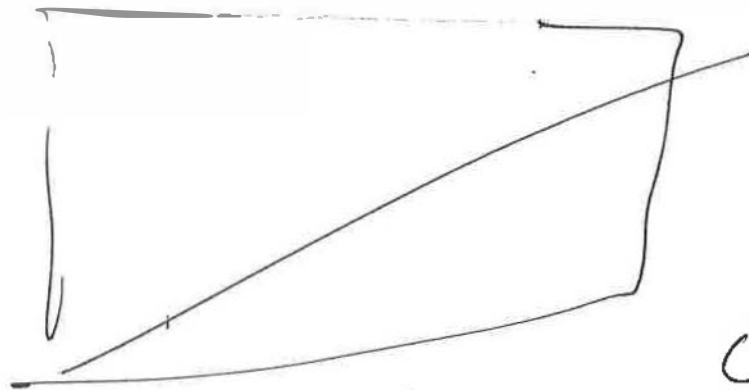
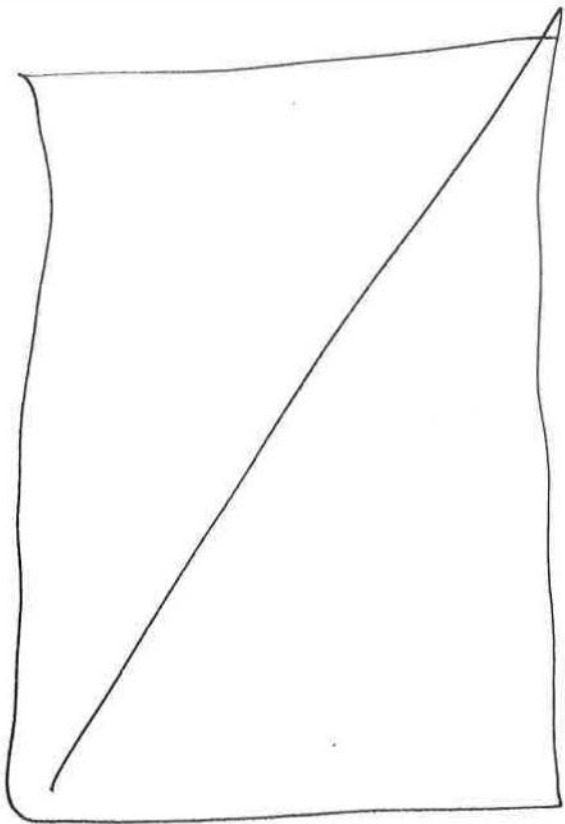
Media Articles and Congressional Correspondence in A/C's 1/30/97 Memorandum

In a 2/10/97 analysis of the 1/30/97 memorandum from the Assistant Commissioner (Employee Plans and Exempt Organizations), seven media articles and five pieces of congressional correspondence were identified that listed numerous exempt organizations or individuals connected with exempt organizations. All were included in our initial listing of cases to investigate IRS' actions. The 28 exempt organizations and individuals are as follows:

ENTITY NAMES

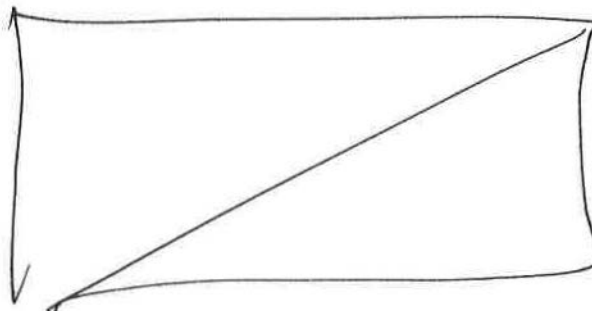
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Name: Questionable EO Examination Activity	Case Number: 5-9702-0022
Exhibit 3.1	



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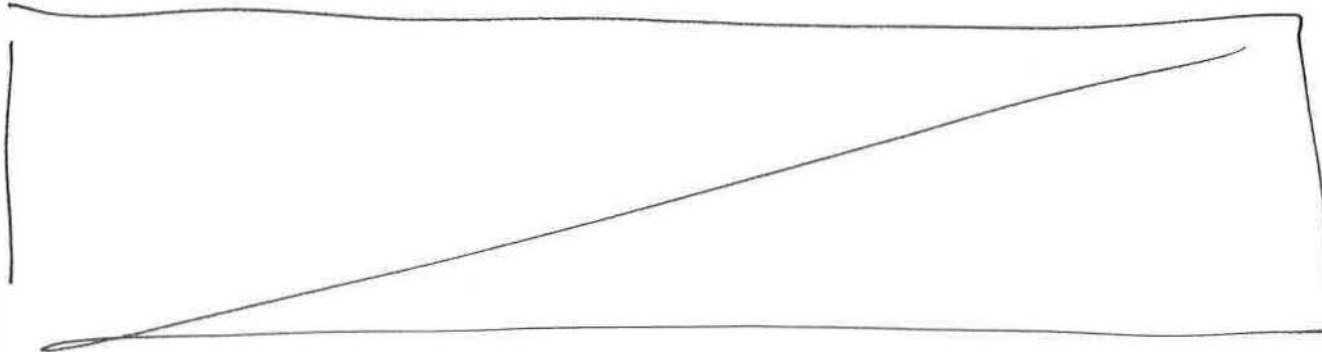
WESTERN CENTER FOR JOURNALISM



OS

Media Articles Received Subsequent to A/C's 1/30/97 Memorandum

Subsequent to receipt of the A/C (EP/EO)'s memorandum and attached media articles and congressional correspondence items, we received from other sources additional media articles for analysis to identify exempt organizations alleged to have been audited/not audited or those that were alleged to have received favorable (speedy) or unfavorable (delayed) decisions on their applications for exempt status, based on their political leanings (conservative vs liberal). From these articles, we identified two additional exempt organizations not included in the A/C's memorandum, both of which dealt with the length of time required for the IRS to review the applications for tax-exempt status. Those articles are as follows:



OS

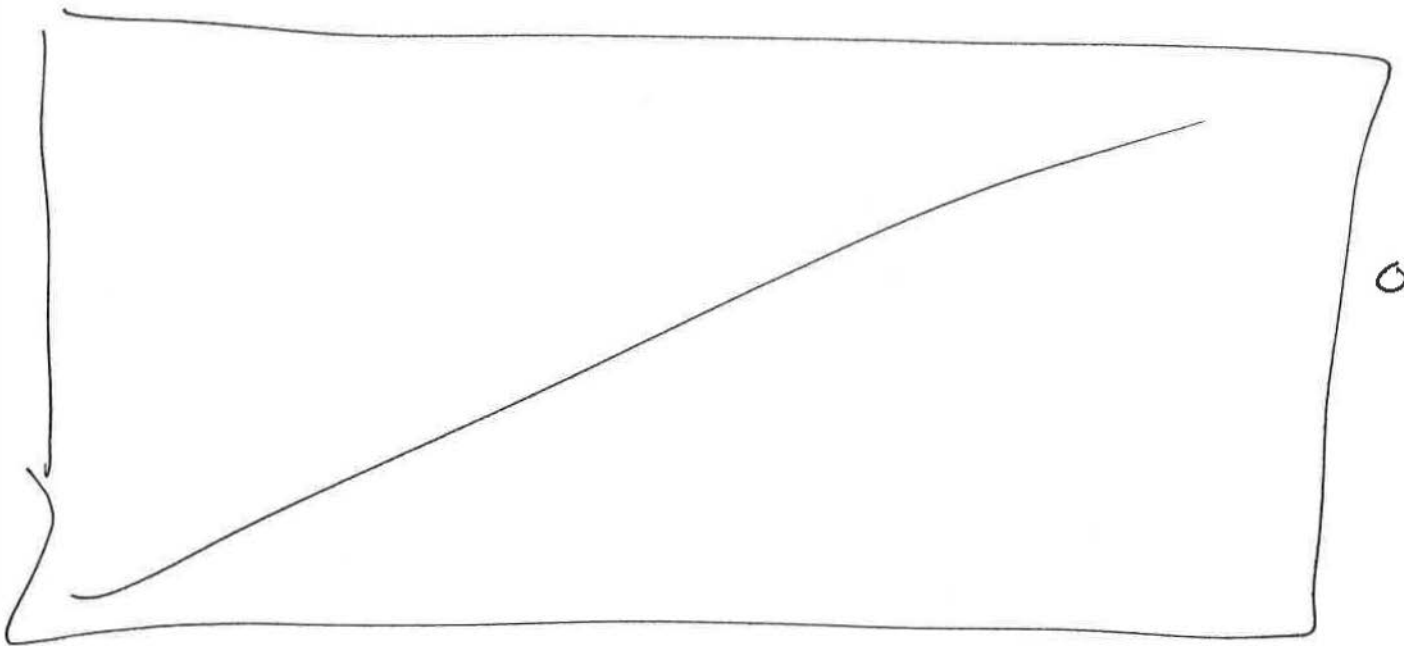
February 9, 1997 - *The Cincinnati Enquirer* - "Portman questions IRS audit motives"

Name:
Questionable EO Examination Activity

Case Number:
5-9702-0022

Exhibit 3.1

- Representative Rob Portman, co-chair of the National Commission on Restructuring the IRS, named conservative tax-exempt organization: _____ and the Western Journalism Center as having identified themselves as subjects of IRS audits.



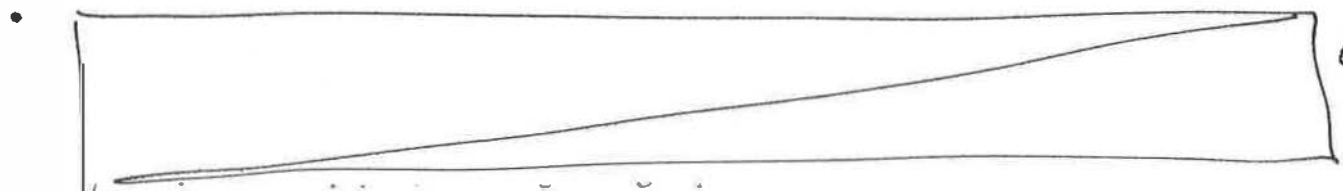
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February 25, 1997 - *The Washington Times* - "IRS began using news stories' audit tips only during 1996."

- The article reports that the IRS intensified its auditing of public-policy groups during Republican administrations but did not direct investigators to use the new media for tips until 1996. About one dozen conservative tax-exempt organizations are now under IRS audit, some of them are harsh critics of President Clinton and first lady Hillary Rodham Clinton. The IRS' reliance on press reports to pick targets is a central complaint from conservatives.
- The article reports that groups now being audited include th_____

OS

_____ and the Western Journalism Center.



OS

- IRS spokesperson Frank Keith stated that agents are not susceptible to manipulation, quoting him as saying "I think it's important for people to realize whether a media referral leads to a examination...ultimately is determined at the local level, IRS agents are more likely to be seeing

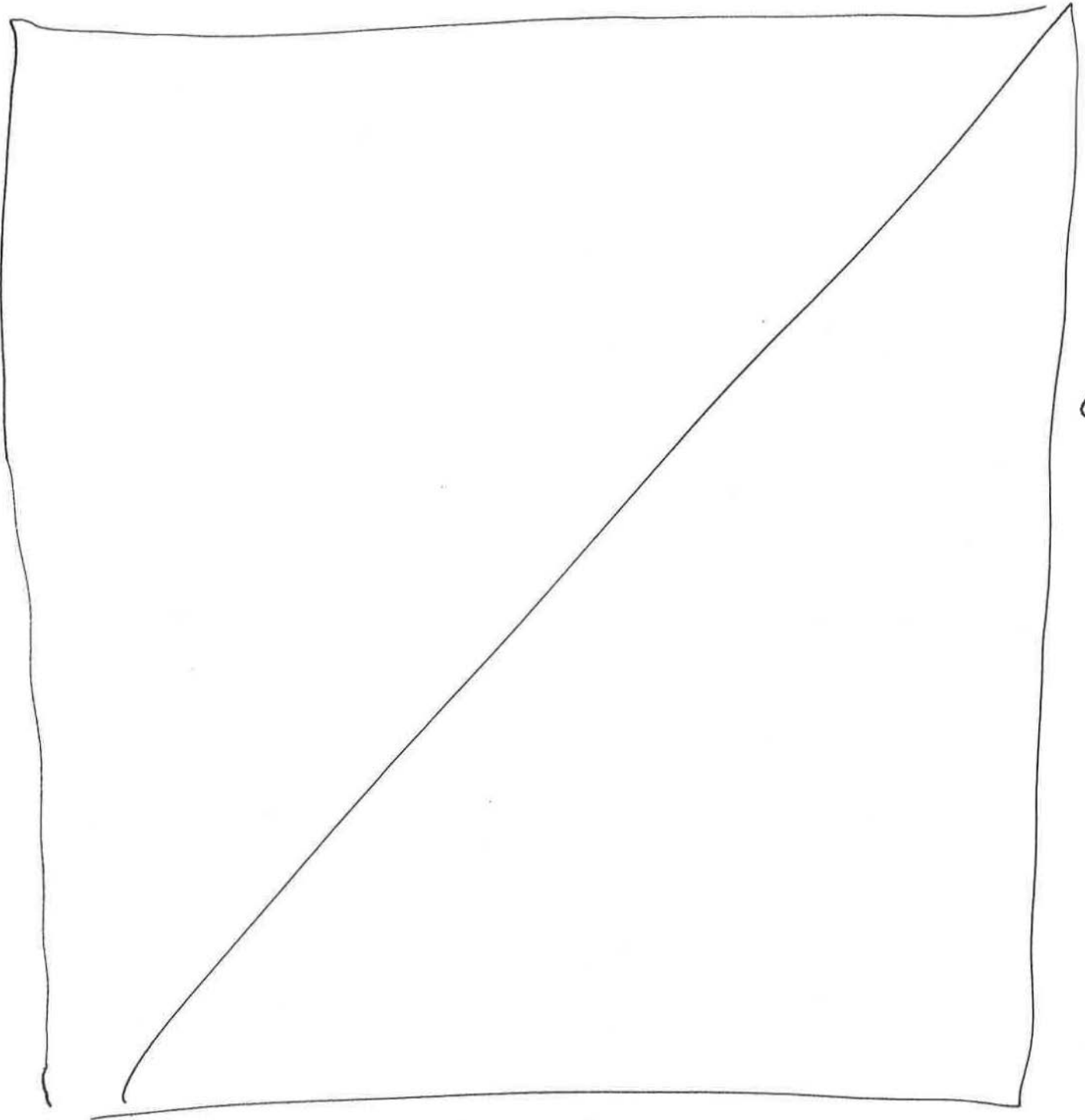
Name:
Questionable EO Examination Activity

Case Number:
5-9702-0022

Exhibit 3.1

media leads from a broad spectrum of news sources, so I don't think it is likely that a media bias will exist."

- The article also references the IRS' September 17, 1996, letter to Congress that 50 tax-exempt organizations are now being examined based on issues of "political activity."



Name:
Questionable EO Examination Activity

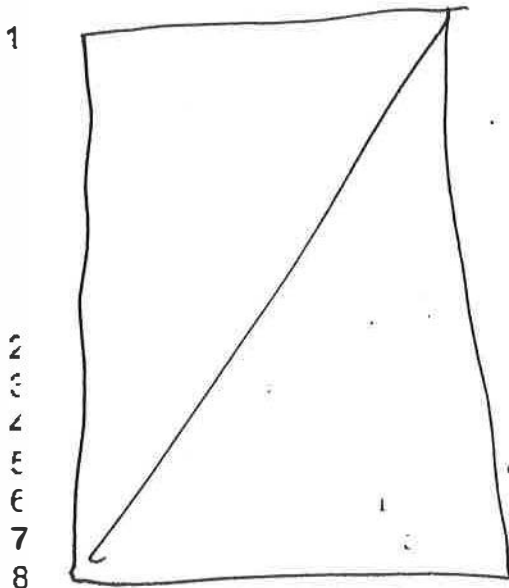
Case Number:
5-9702-0022

Exhibit 3.1

28 CASES INCLUDED IN SPECIAL INQUIRY

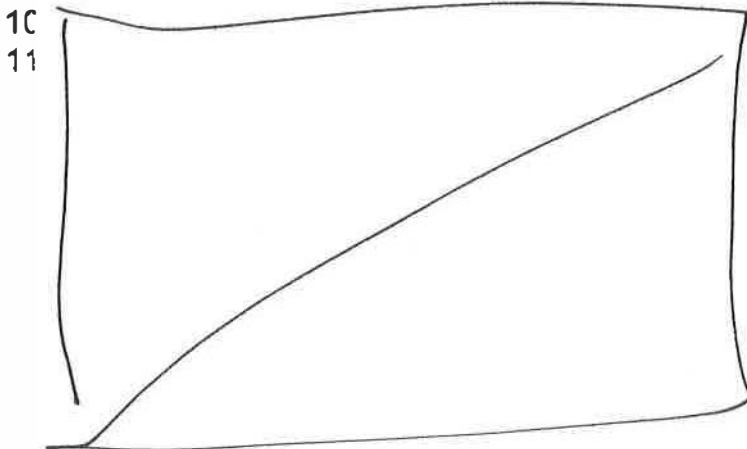
ENTITY NAME

ORGANIZATIONS MENTIONED IN
NEWS ARTICLES/CONGRESSIONAL
CORRESPONDENCE -
CONSERVATIVE ORGANIZATIONS
ALLEGEDLY UNDER AUDIT OR
RECENTLY AUDITED



OS

9 Western Center For Journalism



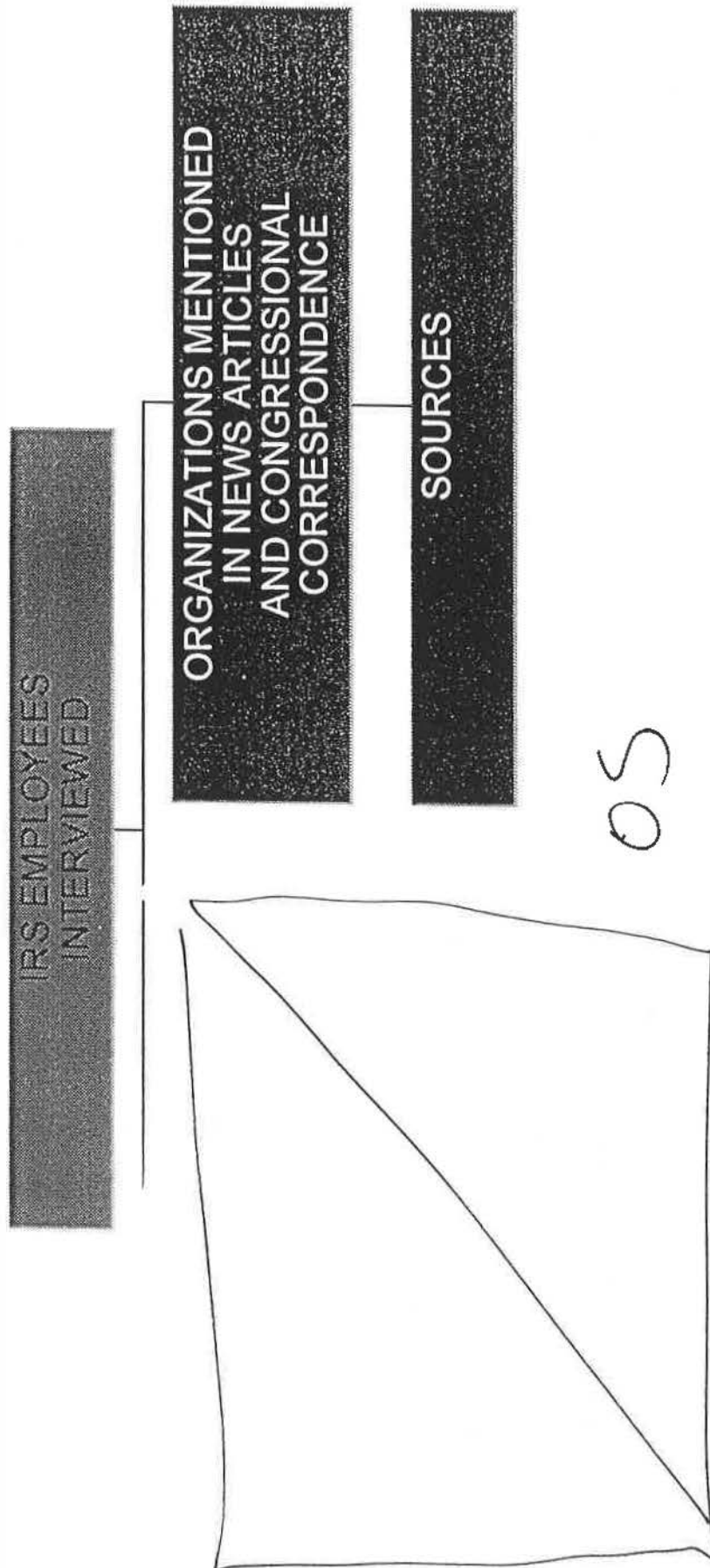
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Name:
Questionable EO Examination Activity

Case Number:
5-9702-0022

Exhibit 3.1

KEY TO CHART



NATIONAL OFFICE EMPLOYEES INTERVIEWED

MARGARET RICHARDSON
COMMISSIONER

MIKE DOLAN
DEPUTY COMMISSIONER

JIM DONELSON
CHIEF COMPLIANCE OFFICER

EVELYN PETSCHKE
ASSISTANT COMMISSIONER
EP/EO

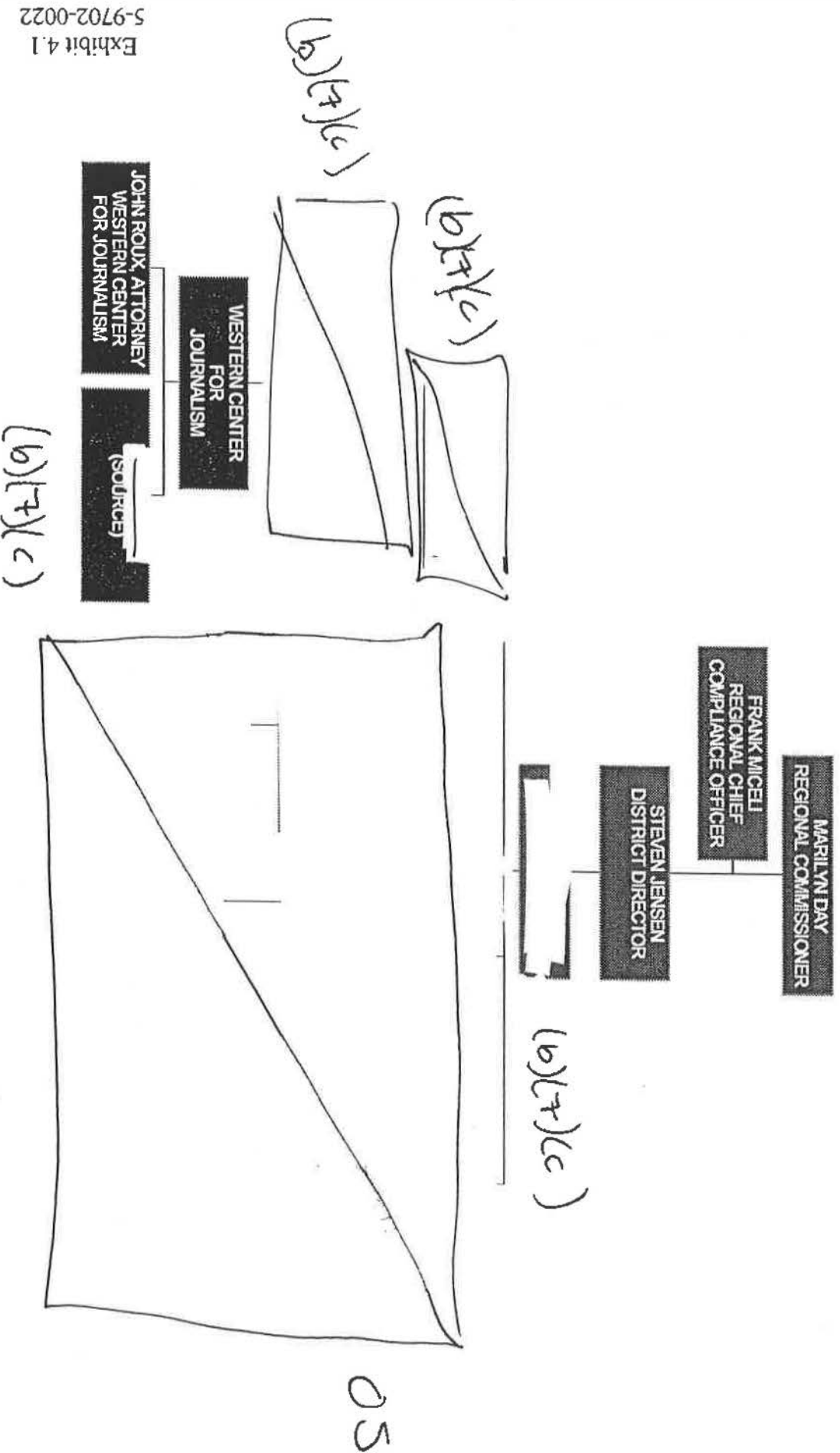
JIM MCGOVERN
FORMER ASSISTANT
COMMISSIONER
EP/EO

STEVEN MILLER
SPECIAL ASSISTANT

MARCUS OWENS
DIRECTOR EO

(b)(7)(c)

WESTERN REGION EMPLOYEES INTERVIEWED



Type of Activity: <input type="checkbox"/> Personal Interview <input type="checkbox"/> Telephone Interview <input checked="" type="checkbox"/> Records Review <input type="checkbox"/> Other	Inspection Service Memorandum of Interview or Activity	Date and Time 6/26/97
Activity or Interview of: <i>(Include all necessary data)</i> List of cases involved in investigation		Conducted by: Harry B. Odom Deputy ARI (IA), SER Location Of Interview/Activity Regional Inspector Office Atlanta, GA

Subject Matter/Remarks
Joint IA/IS Integrity Project
Questionable Exempt Organization
Examination Activities

IAMIS #97151.08
 ISMIS #5-9702-0022

EXAMINATION/NON-EXAMINATION ACTIVITY

AND

SOURCEs OF EXAMINATION

(28 Cases Included in Special Inquiry)

Name: Questionable EO Examination Activity	Case Number: 5-9702-0022
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Exhibit 5.1

#	ENTITY NAME	EXAM'D	OPEN	FILE REV'D	DET LTR	SOURCE OF EXAMINATION				
						MEDIA	SOURCE	CONG. INQUIRY	WHITE HOUSE	RELATED PICKUP
ORGANIZATIONS MENTIONED IN NEWS ARTICLES/CONGRESSIONAL CORRESPONDENCE -										
ALLEGED CONSERVATIVE ORGANIZATIONS CURRENTLY UNDER AUDIT OR RECENTLY AUDITED										
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3										
4										
5										
6										
7										
8										
9	WESTERN CENTER FOR JOURNALISM									
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Name:
Questionable EO Examination Activity

Case Number:
5-9702-0022

Exhibit 5.1

GLOSSARY OF TERMS

ABBREVIATIONS

AIMS	*Audit Information Management System
BMF	*Business Master File
CC	Command Code
CEP	Coordinated Examination Program
CI	Criminal Investigation
DIF	*Discriminant Index Function
EIN	Employer Identification Number
EO	Exempt Organization
IDRS	*Integrated Data Retrieval System
IMF	*Individual Master File
IRC	Internal Revenue Code
N.O.	National Office
RA	Revenue Agent
TIN	Taxpayer Identification Number

*See **Definition of Terms** below.

DEFINITION OF TERMS

Audit Information Management System (AIMS): Computer system used by the Examination Division to control and manage returns open to Examination.

Business Master File (BMF): A magnetic tape file containing information about taxpayers filing business returns and related documents.

Case File: The examined return, related workpapers, correspondence, etc.

Discriminant Index Function (DIF): Formula used to determine the potential increase in tax resulting from an audit. It is a four digit score assigned to a return based on the calculation of a mathematical formula which in combination with the formula code

determines which returns should be inventoried for potential examination.

Disposal Code: Two digit codes used to indicate the disposition of an examination. The codes are assigned by the Examination Division.

Freeze Code: Master File processing alpha codes to identify specific conditions which requires additional action before the account can be settled.

An "-L" Freeze on Master File represents an AIMS Freeze--a tax module is selected for audit freeze with the posting of a TC 420/424.

Individual Master File (IMF): A magnetic tape file containing information about taxpayers filing individual income tax returns and related documents.

Integrated Data Retrieval System (IDRS): A system which enables IRS employees to have instantaneous visual access to certain taxpayer accounts. Several different files compose the IDRS data base. Some capabilities of the system include:

1. Researching account information and requesting returns.
2. Entering transactions such as adjustment, entity changes, etc.
3. Entering collection information for storage and processing in the system.
4. Automatically generating notices, collection documents, and other output.

A tax module remains on IDRS as long as any one of the specified criteria is met, such as accounts in Collection Status, modules with open pending transactions, or modules with open control bases. If the module no longer meets any retention criteria, it is dropped from IDRS and a generated transaction is sent to Master File.

BMF and IMF can be accessed and researched on and through IDRS.

Retention Register: Contains all entity and tax modules removed from the Master File. The basic criteria for removal of a tax module are: (1) the assessed module balance is zero and the last transaction (including the return) has been posted 51 or more months; (2) the assessed module balance is a credit and the last

transaction (including the return) has been posted 60 or more months.

Source Code: Two digit codes used to identify the type of program being examined.

Status Code: Two digit codes used to reflect the current (and possibly the past) rating of an account on AIMS or Master File. Examples of AIMS Status Codes are: (06) if the tax module is awaiting classification, (08) has been selected for examination, but is unassigned, (10) assigned but not time applied, or (12) has been started.

Tax Module: Part of a taxpayer's account which reflects tax data for one tax class and one tax period. For example:

- (1) Taxpayer has filed 3 Forms 1120, 12 Forms 941, and 3 Forms 940 within a three year period. He has only one account on the Master File but 18 tax modules.
- (2) Taxpayer files 3 Forms 1040. There is only one account but 3 tax modules.

DEFINITION OF CODES

COMMAND CODES

Command Codes are five character codes used to initiate information from IDRS. The following provides explanations for the Command Codes used to research IDRS and determine the current status and history on the organizations reviewed.

AMDIS/AMDISA

Command Code AMDIS provides a summary of current data of taxpayers/organizations controlled on AIMS.

Command Code AMDISA provides examination details for an individual tax module controlled on AIMS.

BMFOL

The Business Master File On-Line (BMFOL) provides research of nationwide entity and tax data information posted to the BMF. BMFOL displays an index (summary) of tax modules showing the tax years available. The index contains nationwide information which includes entity, posted return, general tax data, status history, vestigial, adjustment, and audit history for a specific Taxpayer Identification Number.

The BMF contains information provided via weekly computer tapes submitted from each service center. The BMF is updated weekly on Thursday morning.

BMFOLI Index (Summary) Screen
BMFOLO Exempt Organization Screen
BMFOLT Tax Module Screen
BMFOLV Vestigial Screen (Retention Register)
BMFOLZ Audit History Screen

IMFOL

The Individual Master File On-Line (IMFOL) provides research of nationwide entity and tax data posted to the IMF. IMFOL displays an index (summary) of tax modules showing the tax years available. The index contains nationwide information which includes entity, posted return, general tax data, status history, vestigial, adjustment, and audit history for a specific Taxpayer Identification Number.

The IMF contains information provided via weekly computer tapes submitted from each service center.

IMFOLI Index (Summary) Screen
IMFOLT Tax Module Screen
IMFOLV Vestigial Screen (Retention Register)
IMFOLZ Audit History Screen

MFTRA

The Transcript Research System portion of the Microfilm Replacement System allows for hardcopy transcripts or real-time displays of transcript data through Command Code MFTRA. A MFTRA provides details of the entire taxpayer account.

NAMES/NAMEE

Command Code NAMES searches for Social Security Numbers for both the Primary and Secondary filer for individuals, and Command Code NAMEE for Employer Identification Numbers for both Primary and Doing-Business-As (DBA) names.

IDRS TRANSACTION CODES

A Transaction Code (TC) is a three digit code used to identify actions being taken on a taxpayer's account. The following are used throughout the Report of Investigation.

TC 300	Debit	Assesses additional tax as a result of an Examination or Collection Adjustment to a tax module. Generates a TC 421.
TC 420	Examination Indicator	Computer generated at the service center when opening record is posted. Indicates that return has been referred to the Examination or Appeals Division.
TC 421	Reverse Examination Indicator	Generated at the computing center when TC 300 posts with specified Disposal Codes.
TC 424	Examination Request Indicator	Return referred to Examination or Appeals Division. Generates opening Inventory Information. Deletes record, if present, on the DIF file.

IDRS MASTER FILE TAX CODES

Master File Tax (MFT) Codes reduce the numerous types of tax to a two digit code. The following are used throughout the Report of Investigation.

MFT 01	941 Series
MFT 02	1120 Series, Corporation Income
MFT 34	990-T, (Trust)-U.S. address 401 and 403
.....	(Trust and Corporation)-U.S. and Foreign IRC 501(c)
MFT 67	990/990ez, Return on Organization Exempt From Income

Western Center For Journalism

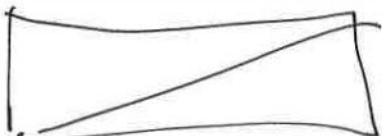
IP 97151.08 QUESTIONABLE EXEMPT ORGANIZATION EXAMINATION SELECTION ACTIVITIES

Western Center for Journalism Case Review

A case review of the Western Center for Journalism (WCJ), Employee Identification Number (EIN) 68-0260052 included: reviewing newspaper articles and related correspondence, researching the IRS' Integrated Data Retrieval System (IDRS), and reviewing the case file, and interviewing the revenue agent and managers.

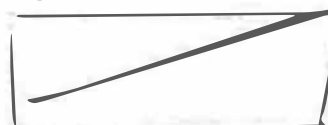
IRS Employees Related To Entity

Region and District



District Director
Regional Chief Compliance Officer
Regional Commissioner

Western Region, Los Angeles Key District



Steven Jensen
Frank Miceli
Marilyn Day

(b)(7)(c)

Review of Newspaper Articles

Several newspaper articles reported that the Clinton Administration influenced the initiation of an audit against WCJ because of its investigative reporting of the circumstances surrounding the death of White House Deputy Counsel Vincent Foster.

One of the articles stated that the revenue agent remarked that "this is a political case, and it is going to be decided in the national level."

Review of Related Correspondence

There are numerous pieces of correspondence concerning the WCJ. Several are from congressmen writing on behalf of constituents voicing their concerns that IRS is "trampling the Constitution," and "conducting politically motivated audit of WCJ."

Another letter from Congressman Archer to the Commissioner requested that he be supplied background information on WCJ. He refers to a *Wall Street Journal* story that raises concerns about the manner in which the audit of WCJ was initiated.

IDRS Research

Research on IDRS resulted in the following.

- Command Code (CC) BMFOLI showed Examination Freezes (-L) for tax periods 9412 and 9512.
- CC BMFOLT for 9512 showed the return was picked up in August 1996, Source Code 60 (Information Report).

- BMFOLZ showed no prior audit history.

Case File Review

The case file was obtained by Internal Security. Inspector Jack Pike made copies of the file in the order in which they appeared in the file.

Case Origination

Note: Senior Auditor Ed Gorman visited the Exempt Organization (EO) Technical Branch II Office and obtained documents relating to the source of the case examination. Some of these were duplicated in the case file.

The following documents were found in a pink envelope in the case file or at Legislative Affairs in the EO Technical Branch II Office.

- I. Memorandum dated 2/28/95 from Director, Exempt Organizations (EO) Division CP:E:EO to the District Director, Los Angeles Key District, ATIN: Chief EP/EO Division.
 - A. This memorandum was date stamped with the following:
 1. Chief, EP/EO Division of Los Angeles District 3/6/95.
 2. Classification Section of the Los Angeles EP/EO Division 3/16/95.
 - B. The memorandum explained that attached is a facsimile (fax) from _____ dated 11/8/94 concerning a full page advertisement in the L.A. Times on 11/9/94, questioning the circumstances of the death of Vincent Foster. _____ notes that the advertisement solicits tax-deductible contributions and _____ alleges there may be a media campaign to hurt the President.
 - C. The memorandum states that the information is being forwarded "for your information and any action that you deem appropriate."
 - D. The memorandum continues advising that the advertisement might not be in full compliance with IRC Section 6113 concerning disclosure of nondeductible contributions. Additionally, based on the EO Return Register, the organization might not be in compliance with Section 6033, concerning filing of tax returns.
- II. Fax cover page to President Bill Clinton dated 11/9/94 _____. The fax was transmitted over MCI Mail from _____. There is a received stamp for 2/3/95, from Congressional Affairs Unit Legislative Affairs Division PC:L.
 - A. The attached page, all type-written, is addressed to Mr. President, and after congratulating him on a tremendous job, asks that someone on his staff follow through (assuming _____ meant on the article).
 - B. _____ explain _____ concerns on the WCJ ad. _____ states when the ad appeared and in what newspaper. _____ also provides the organization's address and Federal Tax ID Number (EIN 68-0260052).
 - C. Finally _____ expresses his concern that WCJ is running a very expensive ad, probably \$25,000.
 - D. _____ provides _____ name and address.

_____ was interviewed and stated that _____ authored the letter and sent it to the White House. _____ did this on _____ own.

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NOTE: There is no indication as to how the taxpayer's fax and letter was routed from the White House to the IRS. There is no cover sheet from the White House to Treasury or the IRS. However, as noted on the fax from the taxpayer, it was logged into Legislative Affairs.

It is common practice for the White House to send bundles of documents to the IRS without a cover sheet.

- III. Copies of IDRS printouts are included in the pink envelope: INOLE (11/30/94), and PMFOL, BMFOLO, BMFOLI (3/20/95). There is also an excerpt from IRS printout of exempt organizations listing WCJ and its address and EIN.
- IV. Letter to the taxpayer dated February 28, 1995 from Chief, Exempt Organizations Project Branch explaining that the Service has received _____ letter and will take whatever action is appropriate.

An interview with the revenue agent assigned the case confirmed that the advertisement was the focus of the initiation of the examination. The agent stated that the organization must have grossed over \$25,000 to afford to place the advertisement in the newspaper. If gross receipts are greater than \$25,000, the organization must file Form 990. WCJ had no record of filings to date.

Contents of Case File

In addition to the above, the case file contained the following documents. The documents were divided into bundles, paper-clipped together. Each bundle is described below and noted by the bundle number.

- I. A copy of 1994 Form 990 with a notation that it is a copy secured from "TP-BY-EO. The original was mailed 3/29/96 to IRS Fresno CA 93888-0027. Attached is a letter from William J. Lehrfeld to Cederquist that there is no need to file another power of attorney.
- II. Examination Return Charge-Out (Form 5546) dated 9/07/96. The Source Code is 60 (Information Report). Attached is a Special Handling Notice (Form 3198) listing the WCJ tax period 9512. There are no special handling or processing instructions on it. **NOTE:** This is the common form used by Examination to cover case files. A copy of Form 990 tax period 1995 is also attached.
- III. Chronology of Events for WCJ. This appears to be the revenue agent's account of his actions on the case.

NOTE: This auditor is assuming this is reconstructed as it is not on the usual form used by revenue agents found in both open and closed cases. The first entry states the case was assigned *either* in September or October 1995.

- A. The first notation is that the case was assigned by a manager in September or October 1995.
- B. The remaining entries note actions of the case. Of note:
 - 1. Revenue agent initially could not find IRS records on the case. After letters to WCJ received no response, the agent requested that its exemption be terminated. However, the case was reviewed and the agent received the case back from review. He sent out three additional letters and received a response from one.
 - 2. He received copies of Forms 990 for 9412 and 9512.
 - 3. The agent stated that he has concerns that investigative journalism is not educational, but could not make a determination without requesting technical advice.
 - 4. An entry on 10/22/96 concerns the inquiry on the agent's comments as quoted in the paper.
- IV. Case Chronology Record (Form 5464). This is a computer generated account of the examination activity.

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- A. The first entry is 7/19/96 when the agent received the case back from review.
- B. The last entry noted "MFT 67" (no narrative) 2/5/97 with 207 hours on the case.
- V. Various documents loose, but referred to as Bundle 12. Of note:
 - A. Minutes of meetings with WCJ's president, accountant, and attorney. The group manager and agent attended for the IRS. Discussed are the purpose of the organization, bookkeeping, and fundraising activities, to name a few issues.
 - B. An entry on Page 7 states that President Farah asked why WCJ was being audited. The group manager answered that the primary reason was because they had not filed the required forms. The agent then gave them an account of his actions to start the case.
 - C. Copies of publications and mail solicitations.
- VI. Interview records, Board Meeting Minutes, and Form 6018 (Consent to Proposed Adverse Action).

The remaining documents were financial analyses, copies of the original determination letters, and Internet Web Page printouts.

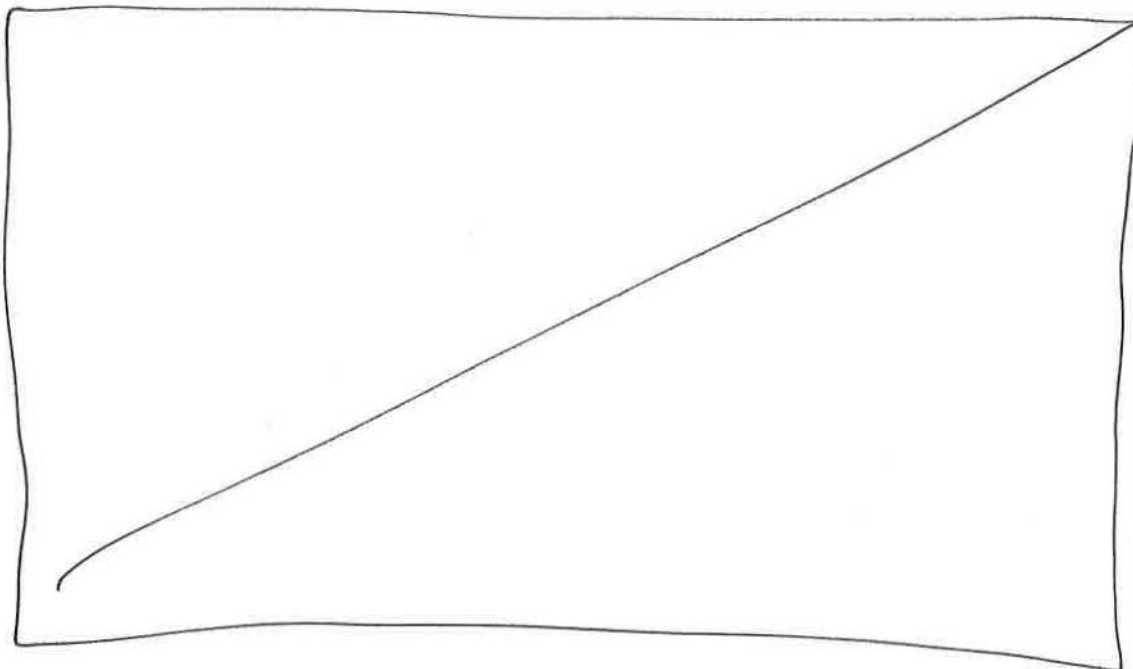
Case Issues

The initial issue was whether the organization is required to file Forms 990. An exempt organization is required to file Form 990 if it has an income greater than \$25,000. The advertisement in the newspaper would have cost that much; therefore, WCJ should have filed a Form 990.

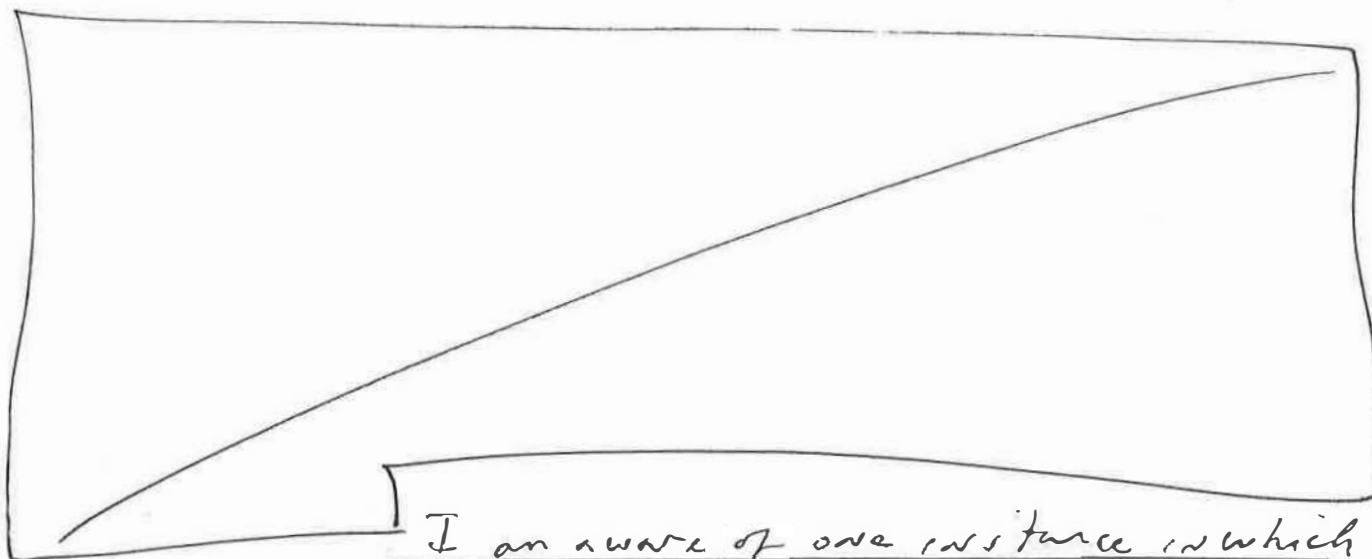
Additional issues were raised:

1. That investigative reporting was paid for with tax-deductible contributions. The agent is waiting for copies of a proposed 1994 ruling relating to investigative reporting to "rule" on this issue.
2. That there is evidence of inurement (the accrual of personal benefit).

Write-Ups Of Discussions And Meetings



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25

I am aware of one instance in which someone other than myself received a request for the status of an examination and/or how the case was selected for exam. Earlier this fiscal year, Marc Owens and others from the Wall Street Journal and News staff (Republican) at the request of Mr. Archer on the Western Center for Journalism case. Managers from Disclosure Litigation were involved and present and higher authorities within the Service were made aware of the contact.

SM

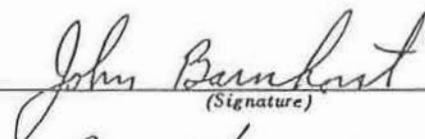
I have read the foregoing statement consisting of 3 pages, each of which I have signed. I fully understand this statement and it is true, accurate and complete to the best of my knowledge and belief. I made the corrections shown and placed my initials opposite each.

I made this statement freely and voluntarily without any threats or rewards, or promises of reward having been made to me in return for it.


(Signature of affiant)

Subscribed and sworn to before me this 4th day of APRIL, 1997, at CINCINNATI, OHIO

I have requested and received SM a copy of this affidavit.


(Signature)
Inspector, IRS
(Title)
Internal Revenue Service


(Signature of witness, if any)

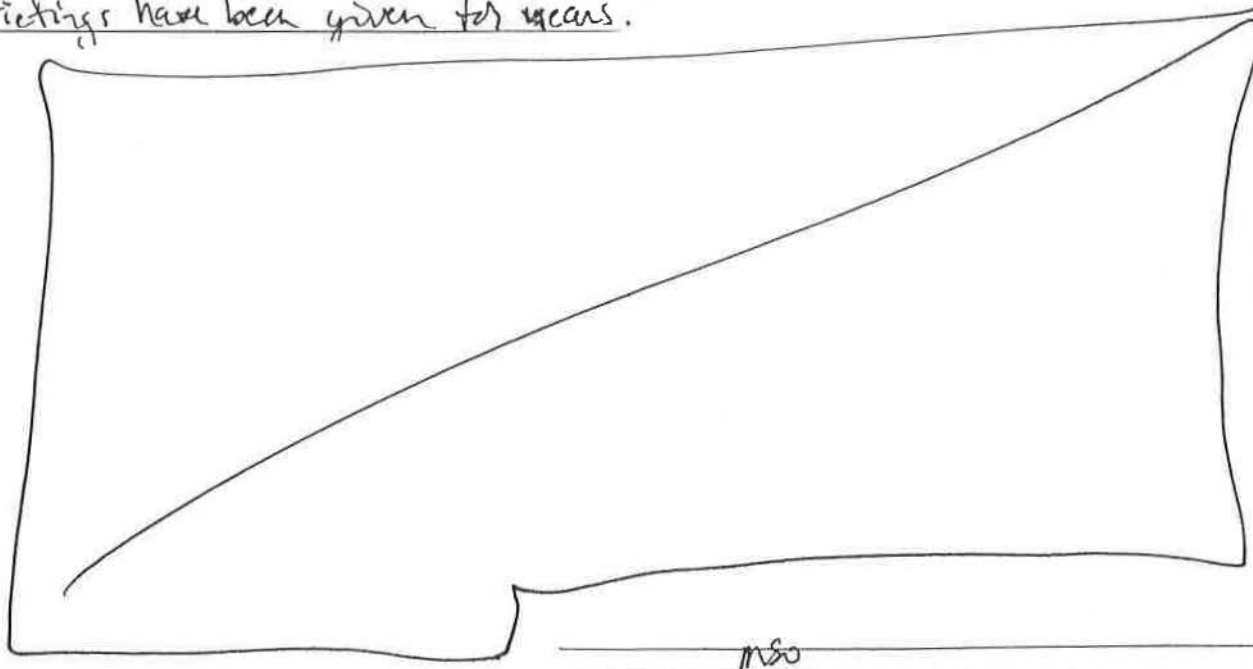
Affidavit

United States of America _____) ss
_____, District of _____)

1 I, MARCUS OWENS, state that:

2 I reside at am employed as Director, Exempt Organizations Division, in the
3 Headquarters of the Internal Revenue Service. I am providing the following information
4 regarding case processing. ^(H1) Concerning requests to delay processing determination
5 letters, I have, on a few occasions during my career, been contacted by CID
6 employees working on criminal investigations involving exempt organizations that
7 also have a civil matter pending in my Division. Typically, CID would request
8 that contact with the organization be suspended until resolution or other
9 disposition of the criminal investigation occurred. ^(H2) I have no recollection
10 of anyone in a position of higher authority within the government contacting me
11 to request that a specific EO return be examined although, from time to time,
12 particular Congressional correspondence, such as
13 _____, may be exhortative in tone. ^(H2) Similarly,
14 my Division receives a steady stream of complaints from the general public, and,
15 on one occasion, from the GAO concerning an organization in Washington, DC,
16 that ~~was~~ alleged to have engaged in improper activities. Such complaints are
17 not uncommonly phrased as demands for the Service to take action. ^(H3)
18 Other than case specific legal advice from the relevant IRS Chief Counsel's
19 Office, I am not aware of any effort to direct or guide the classification of
20 any return (not a function that I perform, however) or proceed with an
21 examination. ^(H4) Regarding outside contacts for briefings on specific
22 examinations, it is common for the members and staff of the House Ways and
23 Means Oversight Subcommittee to request briefings that include IRS 6103
24 taxpayer information. All such contacts, however, are coordinated with
25 Chief Counsel (Disclosure litigation) and Legislative Affairs. Most recently,
26 last fall, such briefings were provided to Phil Moseley (at that time, chief
27 of staff on Ways and Means) and Tim Hanford (Oversight staff) on the

1 Western Journalism Center. Earlier, a more comprehensive briefing on
2 cases had been given to other Oversight Subcommittee staff including
3 Doane Steele Flynn, Tim Hanford, and Nick Supaneta. Similar periodic
4 briefings have been given for years.



OS

MSO

15 The preceding information is drawn from my memory and does not
16 reflect a systematic review of Division records.

MSO

I have read the foregoing statement consisting of 2 pages, each of which I have signed. I fully understand this statement and it is true, accurate and complete to the best of my knowledge and belief. I made the corrections shown and placed my initials opposite each.

I made this statement freely and voluntarily without any threats or rewards, or promises of reward having been made to me in return for it.

(Signature of affiant)

Subscribed and sworn to before me this 17th
day of MARCH, 19 97,
at Washington D.C.

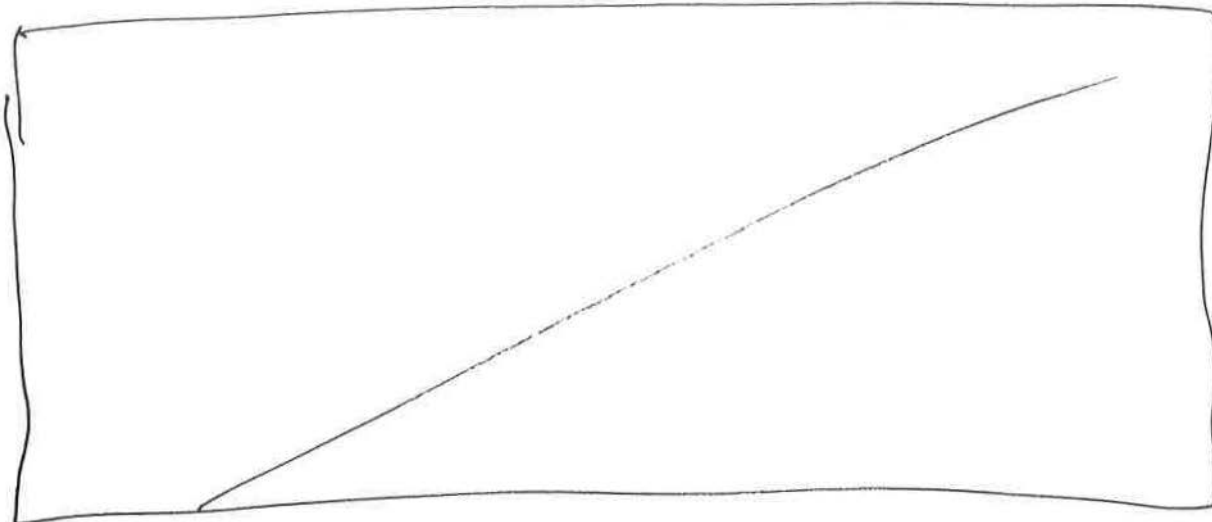
(Signature)

Special Investigator IRS.

(Title)

Internal Revenue Service

(Signature of witness (if any))



(b)(7)(C)

WCJ's Certified Public Accountant

John Roux, WCJ's CPA, was interviewed regarding the audit and the agent's comments on the reason for the audit. See Memorandum of Interview for John Roux.

- The revenue agent did not explain why WCJ was selected for examination.
- The agent stated that that this audit would have to be decided at the national level because it was too political. After some thought, Roux understood this to mean that there was White House involvement.

CONCLUSION

There are no indications that WCJ was selected for examination other than through normal Examination practices. There are no indications of any internal or external influence on the selection and classification of WCJ's tax return.

- The case originated from a source who faxed the White House expressing his concern over a one-page advertisement paid for by WCJ that asked for contributions to investigate Foster's death.
- The fax was forwarded to the EO National Office and then to the respective district office for appropriate actions. There is no indication on how the letter got from the White House to the IRS and the EO office.
- Once it reached the EO Office, it was forwarded to the appropriate KDO. Once in the KDO, the agent received it in a group of cases that were to be reviewed for possible examination.
- Once arriving at the IRS, there does not appear to be any priority treatment provided the letter.
- Issues and concerns resulting from the informant appear to be issues worthy of examination.

Inspection Service
Memorandum of Interview or Activity

Type of Activity: <input checked="checked" type="checkbox"/> Personal Interview <input type="checkbox"/> Telephone Interview <input type="checkbox"/> Records Review <input type="checkbox"/> Other	Date: April 3, 1997	Time: 9:50 a.m.	Conducted by: Inspector Rod Ammari Supervisor In Charge Rex Marshall Supervisory Internal Auditor Frank Dunleavy
Activity/Interview of (include all necessary data): STEVEN A. JENSEN District Director Los Angeles District Internal Revenue Service (IRS) 300 N. Los Angeles Street Los Angeles, California 90012 (213) 894-4120			Location of Interview or Activity: Office of the District Director 300 N. Los Angeles Street Los Angeles, California 90012

Subject Matter/Remarks

District Director STEVEN JENSEN was interviewed regarding his knowledge of the Exempt Organization (EO) examination of the SIERRA CLUB (SC) and any external or internal attempts to influence the examination of any EOs. JENSEN stated that he had been previously interviewed telephonically related to this topic by an Inspector in Atlanta, Georgia. After being read the introductory paragraph related to the FY 97 workplan by Inspector Ammari, JENSEN stated as follows:

He is currently employed as the District Director in the Los Angeles District. He previously was the District Director in the Buffalo District and was formerly the Chief of the Examination Division in the Cleveland District.

When JENSEN became the District Director in Los Angeles in September 1997, the FY 97 Examination workplan had already been in effect as established by the National Office. JENSEN does not have any knowledge of how the EO examination of the Sierra Club was initiated. He was not the District Director of the Los Angeles District when the EO examination was initiated.

JENSEN did not direct the Chief EP/EO Division in the Los Angeles District to establish any local projects to address compliance issues or to initiate examinations of specific EO entities related to the National Office FY 97 workplan. Additionally, there was no discussion with the Chief EP/EO Division to focus on examining politically-oriented entities using their conservative or liberal positions as the examination criteria. By the time JENSEN became the District Director in Los Angeles, the FY 97 workplan had already been initiated.

JENSEN has never received any contacts from within or outside the IRS to expedite or delay processing of any determination letters related to the examination of an EO. There are some reasons why some determination letters would be expedited and why some others may be delayed. The reasons included the possible financial hardship of an EO, and may include valid business reasons. The delaying or expediting of determination letters would not include any politically based reasons. If a Congressman or Senator requested or referred information related to an EO, the information would be treated as any other requests or referrals from taxpayers. Any of these decisions to expedite or delay a determination letter would be based on the merits of a specific case and not based on political reasons.

JENSEN has never been contacted by anyone with higher authority in the IRS, Treasury Department, Administration or Congress requesting that a specific EO return or EO be examined. JENSEN has not been contacted by anyone outside the IRS requesting the initiation of an examination of an EO.

JENSEN never received any guidance or direction from any source on how to classify and/or proceed with an EO examination. JENSEN was never contacted by anyone outside the IRS for a briefing on the classification and/or status of a specific EO examination. JENSEN is unaware of anyone else receiving a request from anyone outside the IRS for the status of an examination and/or classification and selection of a specific EO entity for examination. If anyone were to receive such a request, he believed there were clear guidelines for how to handle such requests.

JENSEN stated that he will provide an affidavit to Internal Security in the future, if it is deemed necessary.

Case Title: QUESTIONABLE EO EXAMINATION ACTIVITIES**Case Number: 5-9702-0022****Marilyn Day, dated 4/3/97**

Type of Activity: <input checked="" type="checkbox"/> Personal Interview <input type="checkbox"/> Telephone Interview <input type="checkbox"/> Records Review <input type="checkbox"/> Other	Date: April 3, 1997	Time: 1045 hrs.	Conducted by: Inspector Jack Pike Internal Auditor Joanola Rose Inspector David A. Richardson
Activity/Interview of (Include all necessary data): DAY, MARILYN W. Regional Commissioner, Western Region 1650 Mission Street, Room 511 San Francisco, CA 94103 (415) 575-7000			Location of Interview or Activity: Regional Commissioner's Conf. f 1650 Mission Street San Francisco, CA

Subject Matter/Remarks

MARILYN W. DAY, Regional Commissioner, Western Region was interviewed regarding issues relating to Exempt Organizations (EO). Bill Schroeder (US Treasury OIG) and Barry Grzechowiak (US Treasury OIG) were also present for the interview. After receiving Privacy Act Notice 417 (Employee Interviews) and being placed under oath, DAY stated as follows:

DAY is employed by the Internal Revenue Service (IRS) as the Regional Commissioner of the Western Region. She was selected for that position during May of 1995, and she reported for duty during August of 1995. She has been employed by the IRS for 24 years, and she began her career with the IRS as a Revenue Officer in Oakland, California. After completion of the Executive Development program she served in a variety of positions, such as Deputy Assistant Commissioner for Human Resources and Assistant District Director for the Chicago and Milwaukee Districts. Prior to assuming her duties as Regional Commissioner, she was the District Director for the Chicago District.

The Director of the Los Angeles Key District reports directly to DAY, who is the immediate superior of that Director. Day primarily provides program oversight and does not typically get involved in the particulars of a given case. She may get involved if a case is notorious or if there has been a taxpayer or congressional complaint. She did not recall any of these factors occurring with respect to any EO case.

DAY stated she has not directed the Regional Chief Compliance Officer or the Los Angeles District Director to establish any local projects to address concerns about intervention in political activities or increased electioneering efforts by Exempt Organizations. She was not aware of such direction by any member of her staff. DAY has not directed anyone to initiate an examination of any specific

Exempt Organization. She was not aware of any focus on, or specific discussion by anyone about, examining politically oriented entities using their conservative or liberal positions as examination criteria.

DAY stated she has never been contacted by anyone from within or outside the IRS requesting that a determination letter be delayed. She did recall one instance, while she was the Chicago District Director, when she was contacted by someone outside of the IRS with a request to expedite a determination. She thought she was contacted by a member of Congress about an Exempt Organization being set up to assist flood victims. This was the only such contact she could recall.

When DAY was the Chicago District Director, she had an EP/EO Division assigned. In her experience, she had found that determination letters were most often delayed or expedited based upon the criteria of EO involved. Simple EO determinations could be made by "merit closure" which is a quick clerical process. More complex determinations require field contact, which is a longer process.

Day has never been contacted by anyone from higher authority in the IRS, the Treasury Department, any Administration, or by any member of Congress requesting that a specific EO be examined. She has never been contacted by anyone from outside the IRS with a similar request. Information items about a specific EO may come to the Regional Office, but they are not reviewed by DAY.

She has not received any guidance or direction from any source about how to classify or proceed with an examination. She has not given any such guidance to anyone else.

She has never been contacted by anyone from outside the IRS requesting a briefing on the classification or status of any specific examination. She is not aware of anyone else who might have received such requests.

DAY thought that the general public did not realize how difficult it would be for an executive to direct that an inappropriate examination be conducted. Such a request would have to go through numerous levels, any or all of which would go running to Internal Security.

DAY agreed to sign an affidavit.

Type of Activity: <input checked="" type="checkbox"/> Personal Interview <input type="checkbox"/> Telephone Interview <input type="checkbox"/> Records Review <input type="checkbox"/> Other	Inspection Service Memorandum of Interview or Activity	Date and Time March 12, 1997 9:15 a.m.
Activity or Interview of: (Include all necessary data) STEVEN T. MILLER Special Assistant to Assistant Commissioner (Employee Plans/Exempt Organizations) 1111 Constitution Avenue Washington, D.C.		Conducted by: S/I ROBERT E. JOHNSON Audit Manager JOE STOLZ Location Of Interview/Activity Office of the Chief EP/EO Division, Baltimore Key District Baltimore, Maryland
Subject Matter/Remarks		

On the above date, STEVEN MILLER, Special Assistant to the Assistant Commissioner, Employee Plans/Exempt Organizations Division, was interviewed under oath by Special Investigator ROBERT JOHNSON and Audit Manager JOE STOLZ. MILLER was provided with Privacy Act Notice 417. MILLER stated essentially the following:

The Exempt Organizations Division at the National Office is responsible for preparing an annual workplan which provides direction to the field as to time allocation in various program areas. Suggestions for areas to include in the workplan come from both the field and National Office employees. All selection and/or classification of specific organizations to be audited occurs in the Key District Offices (KDOs). The National Office does not direct the KDOs in the area of classification or return selection. Although these offices may have different local procedures, they should generally be following Internal Revenue Manual guidelines with respect to classification. The National Office does, on occasion, send out "Directed Samples" to the field. However, the field can choose not to examine such samples and/or decide which entities among the samples to examine. Other than these "Directed Samples", there are no national procedures, other than what is contained in the IRM, for selecting returns for examination. The Exempt Organizations Division is in the process of developing some type of outcome measures to evaluate the productivity of its various programs. Because its mission is different from that of the Examination Division, it has not traditionally measured its productivity in terms of dollars or the identification of non-compliance. Because of this, there are no statistics to show which program areas, i.e. special projects, referrals, etc., are more productive than others.

Information items/referrals are received at the National Office from a variety of sources. These sources include other areas of the IRS, referrals resulting from Letter Determination issues, newspapers, third parties, Department of Justice and local government agencies. Referrals predominantly take the form of correspondence. When received, referrals are sent to the office of MARCUS OWENS, Director, Exempt Organizations Division. While there, if any internal information is available regarding the subject of the referral, i.e. exempt status, location, etc., that information will be attached to the complaint. The information is then forwarded to the appropriate KDO for whatever action they deem necessary. He believes that referrals, in the form of correspondence, are tracked when they are received by the National

Name: Questionable Exempt Organization Examination Activities	Case Number: 5-9702-0022
Exhibit 15.4	

-continued-

Office and again when they are sent to the KDOs. However, he is unaware of any tracking system used by the National Office to determine the disposition of their referrals. He has never nor is he aware of anyone at the National Office ever directing any KDO (formally or informally) to examine any specific organization.

When an organization is accepted for examination by the KDO based on a referral, the referral is attached to the case file. The examination is also established on the AIMS system. However, if the referral is surveyed, he is unaware of any specific procedures in the KDOs governing the tracking or disposition of referral information. The National Office does not track which referrals are accepted for examination and which ones are not. He suspects that the classification process in the KDOs is subject to Quality Review per the IRM and local procedures. However, he is unaware of any National Office Quality Review with respect to referral or classification procedures.

With respect to the "Determination Letter" process, he explained the same basic procedures as Assistant Commissioner (Employee Plans/Exempt Organizations) EVELYN PETSCHKE. Those procedures are detailed in the Memorandum of Interview of PETSCHKE dated March 12, 1997. He believes there are timeframes established as to the determination process; however, he is unaware as to specifics. He believes that there are IRM instructions which allow an organization to expedite their determination process by forwarding a request to the KDO Division Chief. An organization in jeopardy of losing a significant grant should they not receive a quick determination would be an example of one who would qualify for expeditious treatment. He has never been contacted by anyone from within or outside the Internal Revenue Service asking that he delay a particular entity's application determination nor is he aware of any other IRS employee receiving such a request.

As far as a national Management Information System designed to monitor referrals and referral dispositions, he is unaware of such a system. With respect to referrals, the National Office does not track individual case names. However, it would be possible to match National Office correspondence files to AIMS in order to identify actions on those cases which were accepted for examination. As of this date, such a match has not been undertaken.

The guidance/oversight provided by the National Office lies in it's programmatic responsibilities carried out through the workplan. It does not exercise line authority over the KDOs. He is aware that previous field visits to the KDOs were made by National Office personnel for various reviews/assessments. However, he is unaware of any review being done in the area of referrals and/or the classification process.

He has never been contacted by any higher authority within the Internal Revenue Service, the Department of Treasury, the President's Administration or Congress requesting that a particular tax exempt organization be audited nor has he received such a request from anyone else outside the Service. He has never received any direction with respect to classifying or proceeding with a particular examination by any source. He has been contacted previously by the Department of Treasury, General Counsel for Tax Policy on two occasions

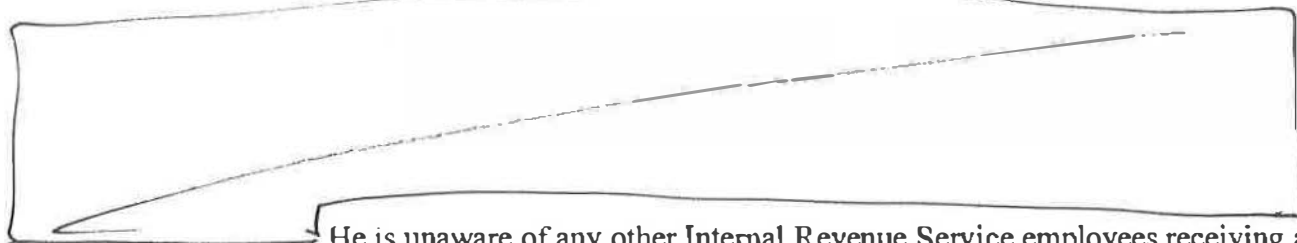
Name:
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Exhibit 15.4

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He is unaware of any other Internal Revenue Service employees receiving a request from any outside source requesting that a particular tax exempt organization be audited.

Inspector Note: MILLER provided a sworn affidavit.

Name:
Questionable Exempt Organization
Examination Activities

Case Number:
5-9702-0022

Exhibit 15.4