

Marcus Owens, Director, dated 3/13/97

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 13, 1997 1:00 p.m.
Activity or Interview of: <i>(Include all necessary data)</i> MARCUS S. OWENS Director Exempt Organizations Division 1111 Constitution Avenue Washington, D.C.		Conducted by: S/I ROBERT E. JOHNSON Audit Manager JOE STOLZ
		Location Of Interview/Activity 1111 Constitution Avenue Rm. 6411 Washington, D.C.
Subject Matter/Remarks		

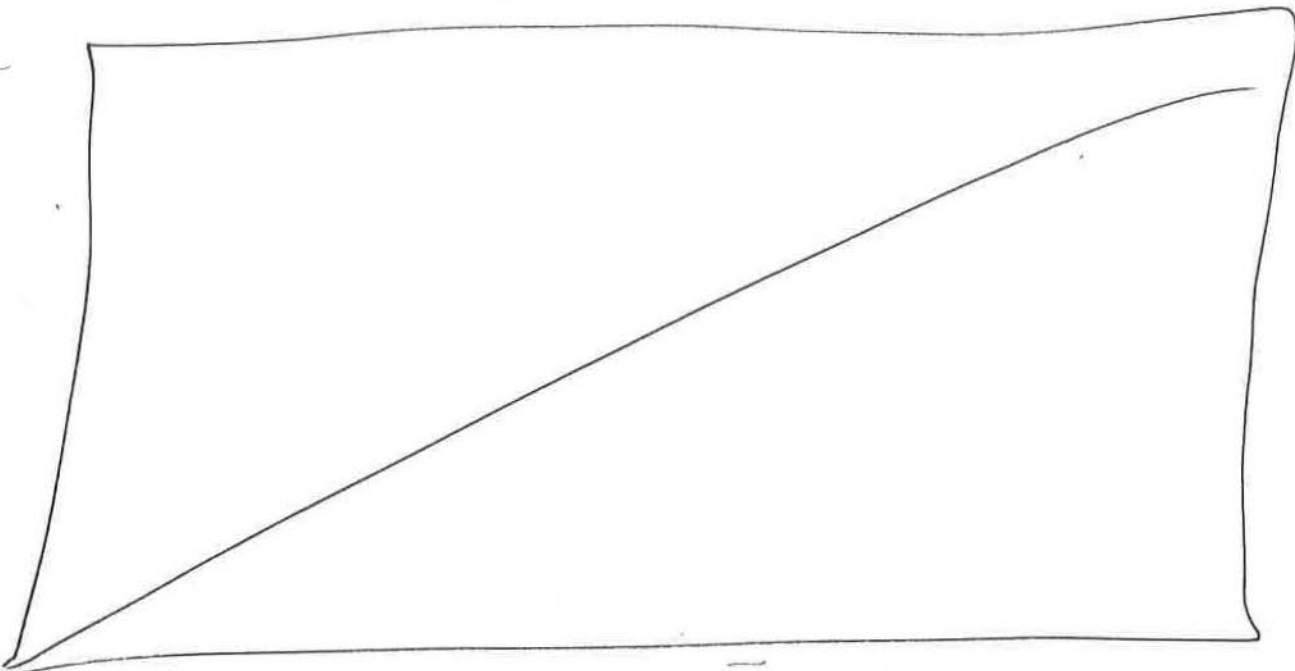
On the above date, MARCUS OWENS, Director, Exempt Organizations Division, Washington, D.C., was interviewed under oath by Special Investigator ROBERT JOHNSON and Audit Manager JOE STOLZ. OWENS was provided with Privacy Act Notice 417. OWENS stated essentially the following:

The National Office Exempt Organizations Division is responsible for programmatic oversight by developing and implementing an annual workplan which provides direction to the Key District Offices (KDOs) as to time allocation and areas of focus. The workplan is developed each year by obtaining input from the field and various National Office analysts as to areas they feel should receive emphasis. A draft of the plan is sent out each year and is implemented after agreement and comment by the KDOs. Current areas of focus involve universities and hospitals under the Coordinated Examination Program (CEP). The CEP focuses on large tax exempt entities who've been identified by the KDOs as areas worthy of examination. The KDOs determine which specific entities they examine under the CEP. However, the National Office generally receives a list of these entities in the form of quarterly reports. Also, there is currently a National Project involving social clubs and tax exempt bonds. As part of the project, the National Office provides the KDOs with samples for examination. The KDOs determine which organizations from the sample they actually examine. The KDOs may choose not to examine any of the samples. Another area of current emphasis involves gaming organizations. Each KDO is left to coordinate their own program with respect to gaming. Other forms of exam selection occur in the KDOs using Selection of Exempt Returns For Examination (SERFE) procedures. This procedure is similar to the Examination Division's use of the "DIF score" whereby returns are evaluated and "scored" based on certain factors and/or characteristics.

The National Office does receive numerous referrals of information from various sources such as the media, other IRS divisions, other government agencies, etc.. These referrals are forwarded to his office and then to the Projects Branch. The Projects Branch prepares and sends an acknowledgment to the source of the referral. The only "evaluation" that is done at the National Office level consists of obtaining addresses, Integrated Data Retrieval System (IDRS) information, etc.. to assist in directing the referral. The referral is then sent out to the appropriate KDO along with any related information attached. The referral is sent to the KDOs for whatever action they deem necessary. He has never directed (formally or informally) a KDO to initiate a specific examination based on a referral nor does he know of any other National Office employee directing such an examination. The only official procedures he is aware of with respect to the handling of referrals are those which are contained in the Internal Revenue Manual, Section 7900. He is not aware of any established procedures regarding time standards in evaluating and/or processing referrals. The National Office utilizes a

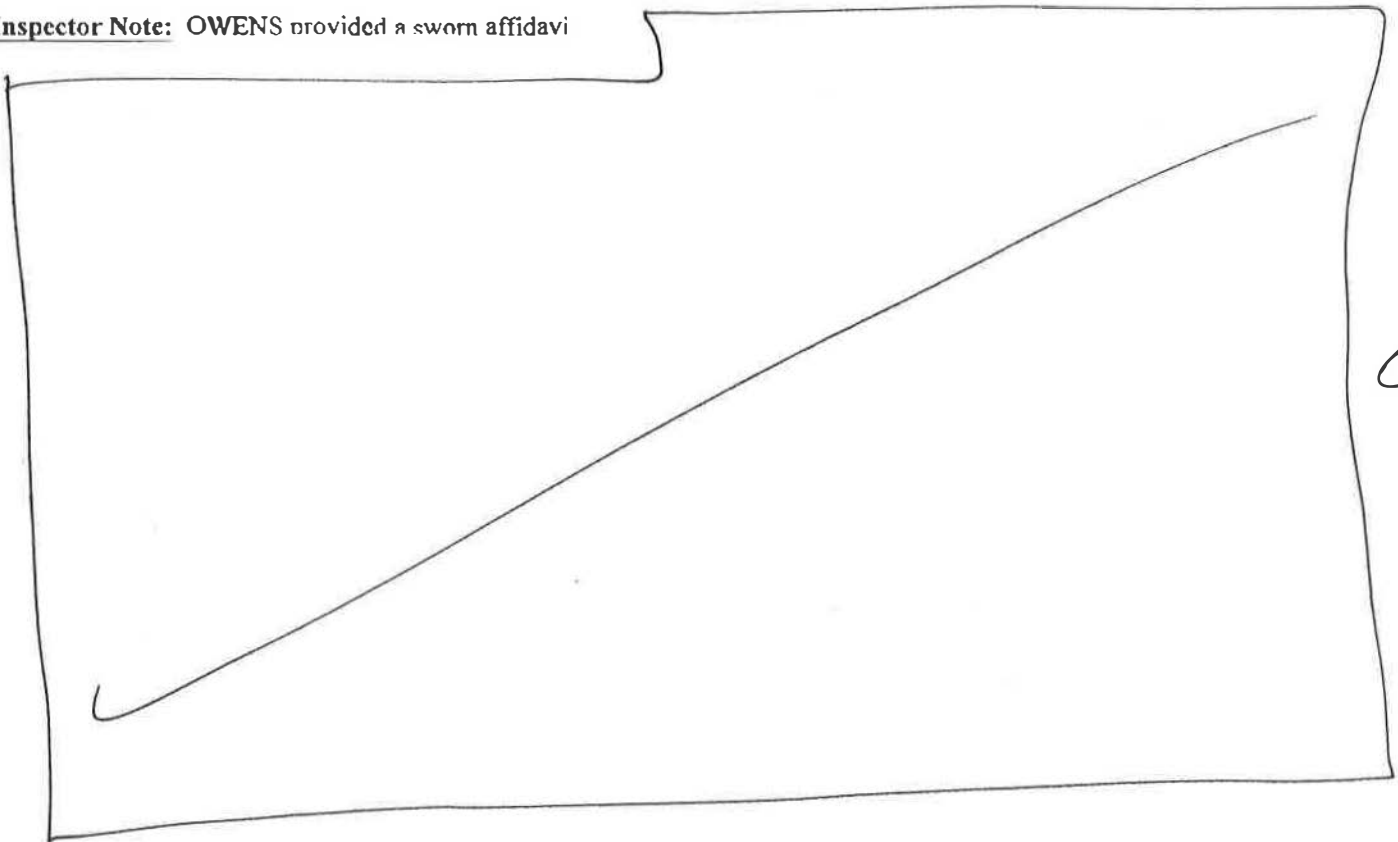
Name: Questionable Exempt Organization Examination Activities	Case Number: 5-9702-0022
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Exhibit 15.5



Other than the above situation, he is unaware of any other Internal Revenue Service employees receiving a request from any outside source requesting that an organization be audited, receive favorable treatment, etc...

Inspector Note: OWENS provided a sworn affidavit



OS

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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 June 4 & 6 1997 11:30 a.m.
Activity or Interview of: (Include all necessary data) MARCUS S. OWENS Director Exempt Organizations Division Washington, D. C.		Conducted by: S/I James R. Rice IA Mike Levi Location Of Interview/Activity 1111 Constitution Ave, N.W., Rm. 6411 Washington, D. C.
Subject Matter/Remarks		

OWENS was again advised as to the general nature of a joint Internal Audit (IA) / Internal Security (IS) investigation into questionable Exempt Organizations (EO) Division activities. OWENS was advised he was being interviewed a second time to answer questions that were not covered during his initial interview on March 13, 1997. OWENS was provided for review Privacy Act Notice 417. OWENS acknowledged that he understood the contents of this document. OWENS was then placed under oath. OWENS provided essentially the following information:

Closing agreements sometimes do take place at the national office level. Up until approximately five (5) years ago, all closing agreements were handled in the field. Since that time, every year a handful of closing agreements have taken place at the national office level. There is no specific criteria for closing agreements. If an tax- exempt applicant or organization matter is under IRS technical advise at the national office level and the taxpayer or Key District office requests or suggests the national office enter into a closing agreement, then the closing agreement will be handled at the national office level. These rare situations usually occur in matters that have extreme complex tax issues or ones considered highly sensitive. Authority to enter into agreements with organizations or taxpayers at the national office has been delegated down to the Special Assistant to the Assistant Commissioner, Employee Plans and Exempt Organizations (EP/EO) Division level. He is normally called on to assist EP/EO Special Assistant STEVEN MILLER in national office closing agreement matters. In the Key District Offices, where the majority of closing agreements occur, this authority is delegated down to the EO Division Chief level.

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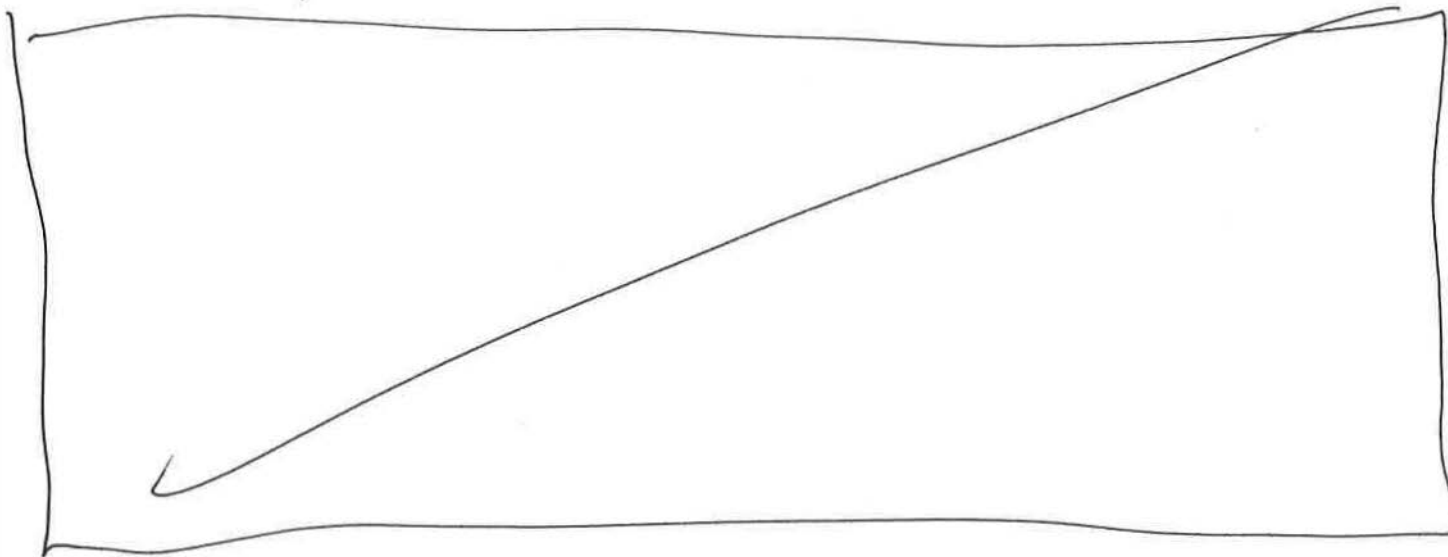
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correspondence control system to track the receipt of correspondence relating to referrals. They also maintain copies of all referrals. There is no procedure whereby the KDOs report back to the National Office as to whether or not a referral was accepted for examination. However, it would be possible to compare the correspondence files to the AIMS system to determine those referrals that resulted in an examination. The KDOs should be following IRM Section 7900 with respect to referrals. The IRM says that when an examination is opened as a result of a referral, the referral is attached to the return. If the referral provides information that a particular issue regarding an organization may arise in the future, that information should be entered into a "tickler file" for future retrieval and follow-up. If the referral is closed/surveyed, the information is not maintained. He is unaware as to whether or not the KDOs maintain a log of surveyed referrals. He is unaware of any other established procedures regarding National Office or field referral processing. He is unaware of any operational or quality reviews having been done in the area of information items or the referral process. However, they are in the process of putting together a "best practices" study in this area.

With respect to determination letters, the Exempt Organizations Division handles approximately 70,000 applications per year. The majority of these are received and worked by the appropriate KDO. Approximately 2,000 of these per year are sent to the National Office. These are applications involving issues where there is no clear precedent for the field to base a determination and/or large complex cases. Those applications which can be "screened out" or where a determination can be made based on the face of the application generally take approximately thirty to sixty days to process. Those which require legal analysis, taxpayer contact, etc., can take several years. There is a process whereby an organization can apply to have their application expedited. The most common reason that an application is expedited is when an organization has a grant pending a determination of their exempt status. He believes that this procedure is contained in the IRM. He has never been contacted by anyone from within or outside the Internal Revenue Service asking that he delay a particular organization's application determination nor is he aware of any other IRS employee receiving such a request.



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 except for routine referrals of information. He has never received any direction with respect to classifying or proceeding with a particular examination by any source. He recalls having been contacted by White House officials on two previous occasions. Neither of these contacts were requesting any type of action; but rather, certain information relating to a particular organization or proceeding.

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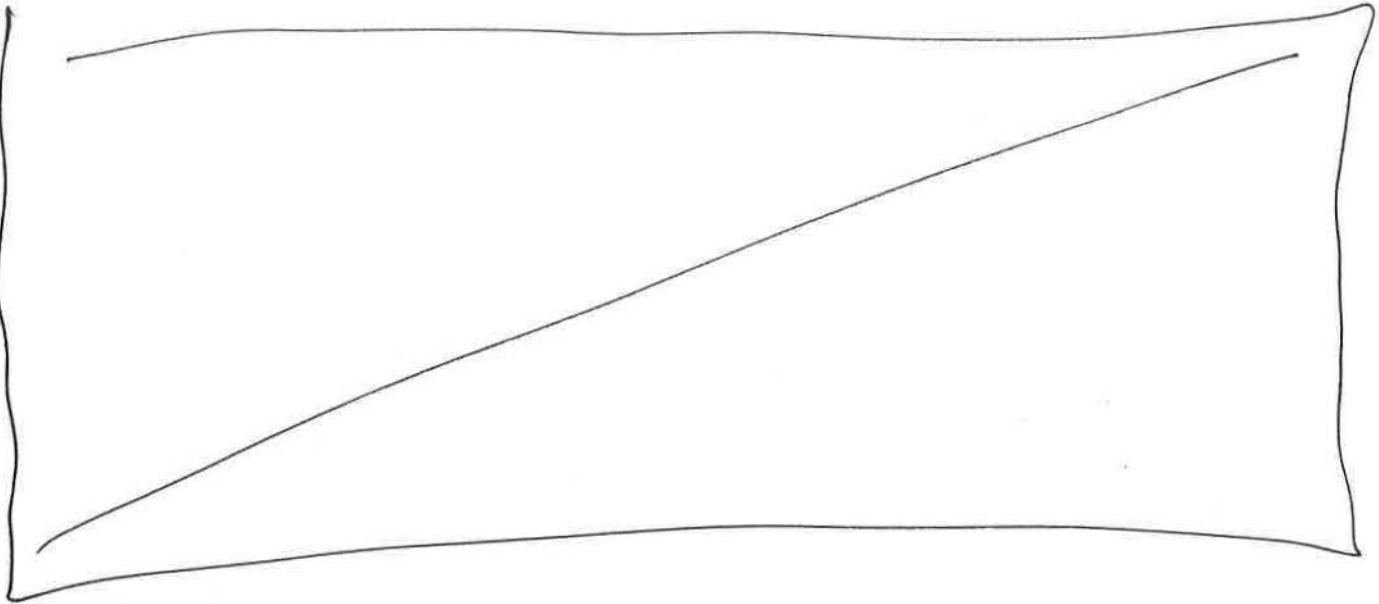
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He acknowledged that a thin line separates IRS tax administration from Treasury tax policy and congressional legislation and that there have been past instances in which EO officials have raised concerns of possible political interference.

OS



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Evelyn Petschek, Assistant Commissioner, dated 3/12/97

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 7:00 a.m.
Activity or Interview of: <i>(Include all necessary data)</i> EVELYN PETSCHKEK Assistant Commissioner (Employee Plans/Exempt Organizations) 1111 Constitution Avenue Washington, D.C.		Conducted by: S/I ROBERT E. JOHNSON Location Of Interview/Activity Office of the Chief EP/EO Division, Baltimore Key District Baltimore, Maryland
Subject Matter/Remarks		

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

The Exempt Organizations Division at the National Office is primarily responsible for developing an annual workplan which provides direction to the field with respect to their time allocations. The workplan directs the Key District Offices (KDOs) to spend a certain amount of time in various areas. These areas include Coordinated Exam Program (CEP) cases and National Projects. CEP cases are identified in the field at the KDO. The organizations are selected based on their meeting certain Internal Revenue Manual (IRM) criteria for examination. National Projects are selected based on suggestions from the field and National Office analysts. Once the project areas are agreed upon and included in the workplan, the National Office pulls random samples and sends these to the field for examination. The KDOs determine which organizations from the sample they actually examine. The KDOs may choose not to examine any of the samples. Another time allocation listed in the workplan is called Unallocated Time. The KDOs determine on their own how to direct their Unallocated Time. Examinations selected based on referrals from outside sources fall within the KDO's Unallocated Time. The actual classification process or the process of selecting particular entities for examination is conducted in the KDO. She has never nor is she aware of anyone at the National Office ever directing any KDO (formally or informally) to examine any specific organization.

Information items/referrals are received at the National Office from a variety of sources. They are derived from media or press coverage, referrals from other IRS divisions, other government agencies and from private citizens. When such referrals are received, they are sent to the appropriate KDO for whatever action they deem appropriate. In some cases, the National Office may do some preliminary research such as determining whether the subject of the referral is in fact a tax exempt organization and/or research to determine the appropriate KDO for referral. There are no classification decisions made at the National Office nor does the National Office direct the field to work any particular referral. She is unaware of any formal procedures governing National Office's handling of referrals. She believes there are IRM procedures which cover the KDO's processing of referrals. There is no formal system in place whereby referrals from the National Office to the field are tracked. Any referral accepted by the KDOs for examination would be established on AIMS; however, those which are surveyed would not appear on any national system. There is no requirement that the KDOs report back to the National Office regarding their decisions/actions with respect to the referrals. To her knowledge, there are no Quality Review procedures in place with respect to the handling of referrals.

With respect to the "Determination Letter" process, all applications for tax exempt status are first clerical screened. Clerical screening determines whether the applicant has included all of the necessary documentation. The application is then technically screened to determine it's completeness, etc.. At this stage, approximately twenty percent of applications are "screened out".

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This means that the applications were complete, contained all of the necessary documentation and a determination decision can be made based entirely upon the application. This process generally takes 30 to 60 days upon receipt of the application. The remainder of the applications, approximately 70,000 per year, are assigned to an examination group for taxpayer contact. A routine field application should be resolved in approximately 180 days or less. Of these, approximately 2,000 per year are sent to the National Office because the applications present unique issues lacking prior precedence. Some of these may eventually go to counsel for advice. Depending upon the issues and the responsiveness of the taxpayer, these "technical closures" can range from 180 days to several years. She acknowledged that there are procedures which allow an organization to request an expedited determination. She believes that there is a Revenue Procedure outlining the details; however, it is not highly publicized. She cited the most common example being an organization who is in jeopardy of losing a sizable grant if their determination is not made quickly. In such a situation, the organization may request and be granted an expedited determination. She has never been contacted by anyone from either within or outside the Internal Revenue Service asking that she delay a particular entity's application determination process nor is she aware of any other IRS employee receiving such a request.

She 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. The exception to this would be written referrals received by her office which are handled and responded to through normal established procedures for the handling of such referrals. She has never been contacted by anyone outside the Internal Revenue Service asking her to initiate an examination or asking for a briefing on the particular status of a specific examination. Again, the exception to this would include referrals handled in accordance with established procedures as well as a request from Congressman BILI, ARCHER's staff for a briefing on the Western Center For Journalism audit and

_____ This particular briefing was conducted by DIANE GRANT and MARCUS OWENS and was documented in correspondence dated November 1, 1996, from Deputy Commissioner MICHAEL DOLAN. She has never personally classified a return for examination or actually done an examination of any organization. Other than those situations mentioned above, she is aware of no one in the Internal Revenue Service who has been contacted by an outside source requesting that a particular tax exempt organization be audited.

Inspector Note: PETSCHKEK provided an affidavit.

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Exhibit 15.6

Michael Dolan, Deputy Commissioner, dated 4/15/97

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 April 15, 1997 1:00 p.m.
Activity or Interview of: <i>(Include all necessary data)</i> MICHAEL P. DOLAN Deputy Commissioner Internal Revenue Service Washington, D.C.	Conducted by: S/I James R. Rice Auditor A.R. Cook	Location Of Interview/Activity 1111 Constitution Ave., N.W., Rm. 3000 Washington, D.C.
Subject Matter/Remarks		

DOLAN was advised as to the general nature of a joint Internal Audit (I/A) / Internal Security (I/S) investigation into questionable Exempt Organization (EO) Division examination activities. DOLAN was provided Privacy Act Notice 417 for review. DOLAN acknowledged that he understood the contents of this document. DOLAN was then placed under oath. DOLAN provided essentially the following information:

He is the Deputy Commissioner of the Internal Revenue Service (IRS) and has held this position for approximately six years. In total, he has worked for the IRS approximately 26 years.

He reports directly to the Commissioner of the IRS. The Chief Compliance Officer JAMES DONELSON reports directly to him. The Assistant Commissioners for each IRS function report to him through the Chief Compliance Officer.

As the Deputy Commissioner, he provides general supervision to each IRS function to include the Exempt Organization (EO) Division. This general supervision does not include his approval or input for the development of the EO Division's annual examination workplan. The Assistant Commissioner (A/C) for the Employee Plans and Exempt Organization (EP/EO) would be responsible for developing EO examination workplans.

He has never been contacted by anyone, from within or outside IRS, requesting and/or directing him to improperly expedite or delay the processing of any tax-exempt status application. He is not aware of any other IRS official(s) who have received a similar request or order. He does not recall if he has ever been contacted by anyone requesting that an organization's tax-exempt application be expedited for legitimate reasons.

He has never had contact, by phone, in person or by correspondence, from any source within the IRS, Treasury Department, Administration or Congress, improperly requesting or directing that a specific exempt organization's tax return be examined or not examined. He has had no personal interaction with anyone who has improperly requested that he provide a briefing on the classification and/or status of a specific examination, or requested that an examination be initiated. He is not aware of any other IRS official(s) who have had contacts similar to the aforementioned.

He has received information from various sources, to include congressional correspondence, reporting entities in violation of EO revenue laws and requesting proper action by IRS. These information items are routinely forwarded to EO Division for response or sent to the key district offices for whatever action they deem appropriate. He has also received legitimate requests for the

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status of certain EO examinations. Examples of these would be requests from the Justice Department, Chief Counsel, or from a Congress official having 6103 authorization.

In conclusion, DOLAN was provided for review a copy of his September 17, 1996 response letter to Congressman CHARLES B. RANGEL. In this letter it states, "While our management information systems do not track issues under review in open cases, after a preliminary review, we are aware of at least 50 tax-exempt organizations presently under examination, or who have a request for recognition of exemption pending, that have political activity as an issue." DOLAN was asked how the above mentioned 50 tax-exempt organizations were identified. DOLAN stated that this was the information provided to him by EO Director MARK OWENS and A/C (EP/EO) EVELYN PETSCHKE, based on a survey conducted of EO key district offices.

Inspector Note: DOLAN advised that he would provide an affidavit.

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Exhibit 16.1

James Donelson, Acting Chief Compliance Officer, dated 4/15/97

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 April 15, 1997 2:30 p.m.
Activity or Interview of: <i>(Include all necessary data)</i> JAMES E. DONELSON Acting Chief Compliance Officer Internal Revenue Service Washington, D.C.		Conducted by: S/I James Rice Auditor A.R. Cook Location Of Interview/Activity 1111 Constitution Avenue, N.W., Washington, D.C.
Subject Matter/Remarks		

DONELSON was advised as to the general nature of a joint Internal Audit (IA) / Internal Security (IS) investigation into questionable Exempt Organization (EO) Division examination activities. DONELSON was provided Privacy Act Notice 417 for review. DONELSON acknowledged that he understood the contents of this document. DONELSON was then placed under oath. DONELSON provided the following information:

He is currently the Acting Chief Compliance Officer for the Internal Revenue Service (IRS). He has worked for the IRS for the past 26 years.

As the Chief Compliance Officer he reports directly to the Deputy Commissioner and Commissioner of the IRS. The Assistant Commissioners for each IRS function to include the Assistant Commissioner (A/C) for the Employee Plans and Exempt Organization (EP/EO) Division, report to him.

He provides general supervision to the A/C (EP/EO). He does not approve nor is he responsible for the development of the Exempt Organization (EO) Division annual examination workplan. The EO workplan is developed by the EO staff and is approved by the A/C (EP/EO). He has never directed anyone in the EO Division to establish local examination projects to examine tax-exempt organizations engaged in prohibited political activities. He also has never had discussions with EO officials about the examination of tax-exempt organizations using their conservative or liberal political positions as examination criteria.

He has never been contacted by anyone, from within or outside IRS, requesting and/or directing him to expedite or delay the processing of any tax-exempt status application. He has never been contacted by anyone within the IRS, Treasury Department, Administration or Congress requesting or directing that a specific exempt organization's tax return be examined or not examined. He has never received any guidance or direction from any source on how to classify and/or proceed with an examination. He has never received a request from anyone outside the IRS concerning the status of a specific examination. He is not aware of any IRS official(s) who have received contacts similar to the above mentioned.

In conclusion, DONELSON was provided for review a copy of a September 17, 1996 response letter from Deputy Commissioner MICHAEL DOLAN to Congressman CHARLES B. RANGEL. In this memorandum, DOLAN states, "While our management information systems do not track issues under review in open cases, after a preliminary review, we are aware of at least 50 tax-exempt organizations presently under examination, or who have a request for recognition of exemption pending, that have political activity as an issue". DONELSON was specifically asked if he knew how the above mentioned 50 tax-exempt organizations were identified. DONELSON stated that he was unfamiliar with the contents of DOLAN's memorandum

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Exhibit 16.2

and did not know how the number 50 was arrived. In an affidavit, DONELSON added, "Regarding the term "political activity", the press and other parties have confused the term and its application. These are cases where the political affiliation is not the issue. The issue is whether a charitable organization (501c3) is engaged in a political activity precisely prohibited by the Internal Revenue Code. This is important regardless of the political affiliation of the organization. The fact that a violation of the Code is in question is what causes the examination or influences a determination not the political leaning of a group".

Inspector Note: DONELSON provided an affidavit with attachment.

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Exhibit 16.2

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

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 April 25, 1997 11:20 a.m.
Activity or Interview of: (Include all necessary data) MARGARET MILNER RICHARDSON Commissioner Internal Revenue Service Washington, D.C.	Conducted by: S/I James Rice Auditor Randee Cook	Location Of Interview/Activity 1111 Constitution Avenue, N.W., Rm. 3002 Washington, D.C.

Subject Matter/Remarks

RICHARDSON was advised as to the general nature of a joint Internal Audit (IA) / Internal Security (IS) investigation into questionable Exempt Organization (EO) Division examination activities. RICHARDSON was provided Privacy Act Notice 417 for review. RICHARDSON acknowledged that she understood the contents of this document. RICHARDSON was then placed under oath. RICHARDSON provided essentially the following information:

She is the Commissioner of the Internal Revenue Service (IRS). It will be four years this May 1997 that she has held this position. She reports directly to the Secretary of Treasury through the Assistant Secretary of Treasury.

As Commissioner, she has a broad range of responsibilities for overseeing the management and administration of IRS activities to include those of the Exempt Organization (EO) Division. This responsibility does not include her approval or input for the development of EO's annual workplan activities. She was unaware that EO had an annual workplan until she read in a recent news article that the 1997 EO workplan suggested that the regions develop local compliance projects to address prohibited political activities by exempt organizations. She did not direct the EO Division to establish any local projects to address these compliance issues. In addition, she has not had discussions with EO Division concerning the examination of politically oriented entities using their conservative or liberal positions as examination criteria.

She has never been contacted by anyone outside of IRS requesting or directing her to expedite or delay the processing of any tax-exempt status application for politically motivated and/or other improper reasons. She is not aware of any other IRS official(s) who have received a similar request or order

To the best of her recollection, she has never been contacted by anyone from the Treasury Department, the White House administration, Congress or any other third party, requesting that a specific exempt organization be examined or not examined. She has not received any improper request to initiate or not initiate an EO examination nor is she aware of any other IRS official(s) having received a similar request.

She has not received any guidance or direction from any source on how to classify and/or proceed with an EO examination. She has never been contacted by anyone outside the IRS requesting a briefing on the classification and/or status of a specific EO examination. She is aware of briefings provided by EO officials MARCUS OWENS and STEVE MILLER; however, these briefings were about EO's classification, selection and examination procedures and processes.

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Exhibit 16.3

In conclusion, RICHARDSON stated that she recently invited members of Congress to review IRS actions with reference to examinations of exempt organizations. She stated that there was an exception to the disclosure laws allowing IRS to release taxpayer information to Congress. She stated that she made this offer to clear the IRS of wrongdoing.

Inspector Note: RICHARDSON advised that she would provide an affidavit.

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Exhibit 16.3

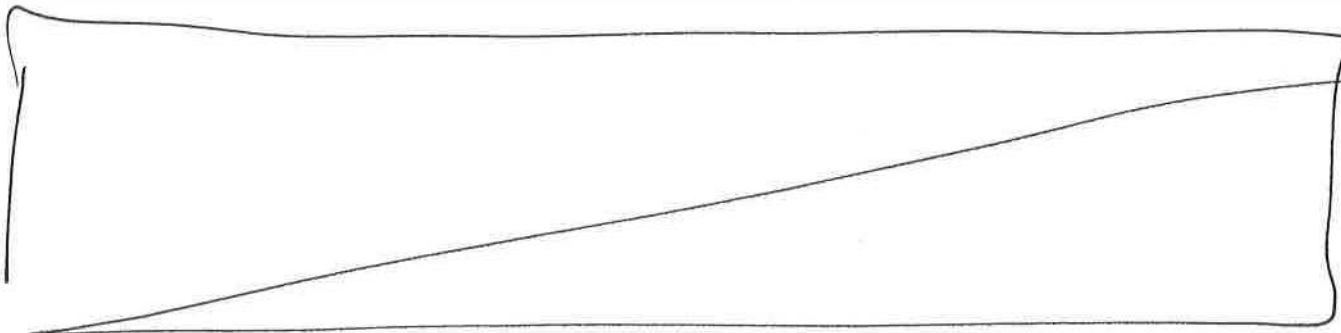
James McGovern, Former Assistant Commissioner (EP/EO), 5/29/97

Type of Activity: <input checked="" type="checkbox"/> Personal Interview <input checked="" type="checkbox"/> Telephone Interview <input type="checkbox"/> Records Review <input type="checkbox"/> Other	Inspection Service Memorandum of Interview or Activity	Date and Time May 29, 1997 2:00 p.m. June 11, 1997 9:00 p.m.
Activity or Interview of: (Include all necessary data) JAMES J. McGOVERN Principle, Washington National Tax Practice 2001 M Street, N.W., Washington, D.C.	Conducted by: S/I James R. Rice RI/SER/IS Location Of Interview/Activity 2001 M Street, N.W., Washington, D.C.	

Subject Matter/Remarks

On May 29, 1997, McGOVERN was advised as to the general nature of a joint Internal Audit (I/A) / Internal Security (IS) investigation into questionable Exempt Organization (EO) Division examination activities. McGOVERN was the former Assistant Commissioner (A/C), Employee Plans and Exempt Organizations (EP/EO) Division upon his retirement from the Internal Revenue Service (IRS) in early 1996. McGOVERN was specifically asked to respond to questions pertaining to possible political interference with respect to a matter involving the Michigan Farm Bureau, an entity whose case was pending on EO technical advise during 1995. McGOVERN provided essentially the following information:

He retired from the IRS in January 1996 as the Assistant Commissioner (EP/EO). He held the position of A/C (EP/EO) for approximately two years. Prior to this, he was the Associate Chief Counsel, Employee Benefits / Exempt Organizations. He has spent a total of twenty-four (24) years with the IRS.



In his 24 years with the IRS, he never experienced any internal or external political influence with respect to any IRS matter to include that involving the _____. He is not aware of any IRS employee who has been subject to political or improper influence. He is not aware of any instance in which a third party had attempted or influenced an IRS examination, investigation or other matter pending before the IRS. He believes that there are sufficient IRS safeguards in place to protect the integrity of the tax administration. He does not believe that any one individual or third party is capable today of directing the outcome of a EO process. He added that EO products are drafted at the staff level and cleared by the heads of those offices. Similarly, significant tax controversy work, such as Technical Advise Memos, are coordinated with the Office of Chief Counsel and involve the views of the Key District Directors and the field staff.

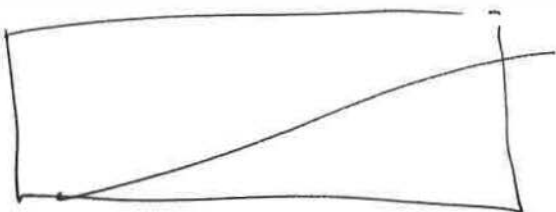


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Form 8052 IS (Rev. 8-96) Department of the Treasury - Internal Revenue Service **Exhibit 17.1**

(b)(7)(C)

Paul Venze, dated 5/15/97, Complaint regarding Western Journalism Center

Inspection Service
Memorandum of Interview or Activity

Type of Activity: <input checked="" type="checkbox"/> Personal Interview <input type="checkbox"/> Telephone Interview <input type="checkbox"/> Records Review <input type="checkbox"/> Other	Date: May 15, 1997	Time: 11:40 a.m.	Conducted by: Special Investigator Timothy Herlihy Inspector Rod Ammari
Activity/Interview of (Include all necessary data): 			Location of Interview or Activity:  

Subject Matter/Remarks

— was interviewed regarding a fax — sent to the White House dated November 9, 1994, related to the WESTERN JOURNALISM CENTER (WESTERN). — stated the following:

— confirmed — sent the fax to the White House on November 9, 1994, related to WESTERN. — recalled sending the fax over two years ago.

— saw a full page advertisement in the Los Angeles Times placed by WESTERN related to the VINCENT FOSTER death. — recalled wondering how this organization could have been tax exempt because the advertisement seemed politically motivated and mean.

— is not familiar with the Internal Revenue Service (IRS) laws pertaining to tax exempt organizations.

Nobody asked — to author the November 9, 1994, letter and send it to the White House did this all on his own.

— faxed the letter to the White House and not to the IRS because — thought WESTERN was trying to hurt the President. — did not think of sending the letter to the IRS or to the Treasury Department.

— did not know anything about WESTERN prior to reading or seeing their advertisement, and does not know anything about them today.

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MEMORANDUM OF INTERVIEW OR ACTIVITY

Case Title: QUESTIONABLE E.O. EXAMINATION ACTIVITIES

Case Number: 5-9702-0022

Type of Activity:

- ☒ Personal Interview
☐ Telephone Interview
☐ Records Review
☐ Other

Date:

May 22, 1997

Time:

1500 hrs.

Conducted by:

Inspector Jack Pike
Supervisor In Charge Dave Richardson

Activity/Interview of (Include all necessary data):

ROUX, JOHN M.
Certified Public Accountant
5207 Sunrise Boulevard, Suite 120
Fair Oaks, CA 95628
(916) 965-2160

Location of Interview or Activity:

Law Office of CHARLES H. BELL, JR.
455 Capitol Mall, Suite 801
Sacramento, CA 95814
(916) 442-7757

Subject Matter/Remarks

JOHN M. ROUX was interviewed regarding his interactions with Internal Revenue Service Revenue Agent THOMAS CEDERQUIST. At ROUX's previous request, the interview was held at the law office of BELL, MCANDREWS & HILTACHK. Attorney CHARLES H. BELL, JR was present during the interview at ROUX's request. ROUX stated as follows:

ROUX is currently the Certified Public Accountant for WESTERN JOURNALISM CENTER (WJC). He has done accounting in that capacity since approximately the early part of 1993. At the end of 1992, ROUX purchased an ongoing CPA practice. WJC was a client that came with that purchase. ROUX thought that WJC was formed during the latter part of 1992, but there was not much activity with the Exempt Organization (EO) until the latter half of 1994.

WJC was organized within the state of California with the specific intention of being a non-profit organization. The original name of the organization was WESTERN CENTER FOR JOURNALISM. This was subsequently changed to WESTERN CENTER FOR JOURNALISM doing business as (dba) WESTERN JOURNALISM CENTER. A dba was filed with the state at some time during 1994 or 1995. This latter name is the one used on tax returns.

The EO was granted 501(C)(3) status during 1993. The status was retroactive to the founding of the organization in 1992. According to BELL, who interjected at this point, additional documents were filed with the Internal Revenue Service (IRS) during mid 1994, relating to the investigative journalism intern program. ROUX was not involved with the application for EO status and did not know when application was made.

To ROUX's knowledge, this was the first time WJC's records had been examined by the IRS. Approximately one month prior to the first audit meeting, WJC received written notice of an impending audit. Mr. FARAH called and told ROUX about the notice, and ROUX called CEDERQUIST as the contact person listed on the audit letter. ROUX was familiar with CEDERQUIST from a prior EO audit. At that time, CEDERQUIST audited the PACIFIC COAST CUTTING HORSE ASSOCIATION, which organization was represented by ROUX. There were no problems with or anything unusual about that examination.

CEDERQUIST did not explain why WJC was selected for examination, and ROUX did not ask. To this date, ROUX does not feel that he knows what the audit issues are. When CEDERQUIST arrived at the first audit meeting, he and ROUX chatted for 15 or 20 minutes. ROUX showed CEDERQUIST where he could work and provided the books and records. While they were chatting, CEDERQUIST stated to the effect that this case would have to be decided at the National level because it was too political a case. ROUX did not think much about the comment at the time. At the end of the first day's work, ROUX asked CEDERQUIST what issues he had developed and where the audit was headed. CEDERQUIST again stated the case would have to be decided at National Office, because it was too political. After this second comment, ROUX became quite concerned, and he advised FARAH of the remarks that night. ROUX was not aware of any communication between FARAH and CEDERQUIST about his remarks.

CEDERQUIST looked at many different things relating to WJC. He had questions about the characterization of some documents (i.e. were they donations, expenses, or what?). He wanted to discuss two magazine articles about WJC that appeared in DISPATCHES magazine and INSIDE CALIFORNIA magazine. He wanted to know about the intern program and how it worked. It seemed that CEDERQUIST might have been unaware of the 1994 ruling. Roux stated he was unfamiliar with the appeal process / procedures within IRS-Exempt Organization. ROUX never felt that he knew where CEDERQUIST was going with the audit. ROUX saw nothing to make him question CEDERQUIST's professional competence. It appeared to ROUX that CEDERQUIST was biased before the audit even began. It seemed that CEDERQUIST was not going to make a decision regardless of what he saw, because of the activities of WJC.

ROUX did not have any proof that the White House was involved with the selection of WJC for audit, but it was now his belief that this was the situation.

ROUX felt that the news article accurately reflected the conversation he had with CEDERQUIST.

At the conclusion of the interview, attorney BELL stated that he saw no problem with ROUX providing an affidavit if such document was determined necessary.

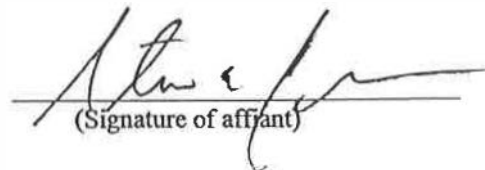
AFFIDAVIT

United States of America
Central District of California

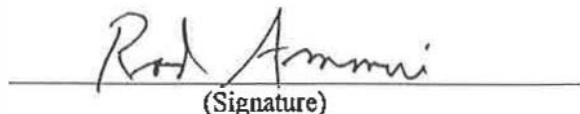
I, STEVEN A. JENSEN state that: I am employed by the Internal Revenue Service (IRS) at 300 N. Los Angeles Street, Los Angeles, California, as the District Director of the Los Angeles District. On April 3, 1997, I was interviewed by Inspector Rod Ammari, Supervisor In Charge Rex Marshall, and Supervisory Internal Auditor Frank Dunleavy. I have been the District Director in Los Angeles since September 1996. I was previously employed as the District Director in the Buffalo District. I have no knowledge of the Sierra Club Exempt Organization (EO) examination initiated in 1987. I have not personally directed the Chief Employee Plans/Exempt Organizations (EP/EO) Division in Los Angeles to establish any local projects to address concerns about intervention in political activities or increased electioneering efforts by Exempt Organizations. I am not aware of any such direction by any member of my staff. I have not directed anyone to initiate an examination of any specific Exempt Organization. I am 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. I have never been contacted by anyone within the IRS requesting that a determination letter be delayed or expedited. The amount of time required to issue a determination letter is most often affected by the criteria in which the specific Exempt Organization falls and will involve issues unique to each Exempt Organization. I have never been requested by higher authority within the IRS, Treasury Department officials, Administration officials, members of Congress, or anyone else to have a specific Exempt Organization examined. I have never been contacted by anyone from outside of the IRS with a request that a specific Exempt Organization be examined. I have never received any guidance or direction from any source about how to classify or proceed with an EO examination. I have never been contacted by anyone from outside the IRS requesting a briefing on the classification or status of any specific examination. I am not aware of anyone else who might have received such requests.

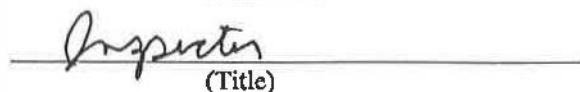
I have read the foregoing statement consisting of 1 page, which I have signed. I fully understand this statement and it is true, accurate and complete to the best of my knowledge and belief. I made the corrections shown and placed my initials opposite each.

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 8th
day of APRIL, 19 97
at LOS ANGELES, CA


(Signature)


(Title)

(Signature of Witness, If any)

Affidavit

173

United States of America)
SOUTHERN, District of OHIO) ss

Please be advised that my affidavit contains 6103 information!

1 I, STEVEN TODD MILLER, state that:
2 I ^{work} ~~reside~~ at the Headquarters Office of the IRS in the Office of Employee
3 Plans / Exempt Organizations. I serve as Special Assistant for Exempt
4 Organizations Matters. I do not recall having ever received any contacts
5 from within or outside the Service to delay processing any determination
6 letter. Nor do I recall anyone from higher authority in the IRS, Treasury
7 Department or the Administration ever contacting me in order to request
8 that a specific EO return be examined. ^{STM} ~~however~~ I do not recall a
9 specific instance of Congressional contact, ^{however, STM} ~~now~~ Office does receive
10 Congressional and other general third party contacts, usually
11 in ^{the} form of correspondence, whereby the sender seeks to
12 convince the Service to commence or otherwise conduct an exam
13 of another taxpayer. In one instance a third party (non-Congressional)
14 contacted me personally and submitted information in an
15 attempt to have the Service commence an exam. We forwarded
16 the information to the district office ^{STM} ~~for~~ with jurisdiction over the
17 taxpayer for whatever action it deemed appropriate. I also
18 suggested the third party contact the district office directly,
19 after explaining that our Office had no authority to commence
20 an exam. I do not recall ever having received any guidance/
21 direction from any source on how to classify and/or proceed
22 with an examination. I have been contacted for a briefing
23 on the status of specific examinations on several occasions.
24 First, I have participated in at least two briefings
25 which contained 6103 information with Congressional Staff
26 of the Oversight Subcommittee of the House Committee on Ways
27 and Means. These meetings were done at the request of

ATD

AFFIDAVIT

Affidavit

273

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

1 I, _____, state that: SPM

2 ^{work} I reside at _____

3 Oversight staff and after consultation with, and participation
4 by, managers in the Disclosure Litigation office of
5 Chief Counsel.

- 6 _____
- 7 _____
- 8 _____
- 9 _____
- 10 _____
- 11 _____
- 12 _____
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- 17 _____
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- 25 _____
- 26 _____
- 27 _____

O.

Affidavit

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

1 I, Evelyn A. Petschek, state that:
2 I ~~reside at~~ am employed as Assistant Commissioner
3 (Employee Plans and Exempt Organizations).
4 I was interviewed under oath by Joseph L.
5 Stolz, Audit Manager, and Robert E. Johnson,
6 Special Investigator and provided with Privacy Act
7 Notice 417. The interview concerned the Service's
8 exempt organizations program and more
9 specifically the examination ~~and~~ selection process.
10 I stated that 1) I have never received any
11 contacts from either within or outside the Service
12 to delay the processing of a determination application;
13 2) I have never been contacted from a higher
14 authority in the Service, Treasury or the
15 Administration or Congress (other than ^{written} referrals
16 in the normal course of business that were
17 handled in the normal procedures established
18 with respect to referrals); 3) I have not been
19 contacted ^{through any means} by anyone outside the Service to initiate
20 an examination (except ^{the} referrals noted above handled
21 in accordance with above noted procedures) or for
22 a briefing on an examination; 4) I have never
23 classified a return for exam, conducted an exam nor
24 received any guidance with respect to same. Finally,
25 I stated I was not aware of anyone else receiving a request
26 from anyone outside the IRS for status of an
27 examination or to classify and select a specific

1 ED entity for examination, except for the written
2 referrals received in the ordinary course as noted
3 above and except for the request from Cong.
4 Archer to ~~be~~ have his staff briefed with respect
5 to the Western Center for Journalism.
6 I have provided this affidavit freely and
7 voluntarily without any fear of intimidation,
8 and/or promises being made to me

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.

Subscribed and sworn to before me this 12th
day of March, 1977,
at 31 Hopkins Place, Belt MD

Eric G. Peltz
(Signature of affiant)

Robert E. Johnson
(Signature)
Special Investigator
(Title)

Internal Revenue Service

Joseph J. Long
(Signature of witness, if any)

Affidavit

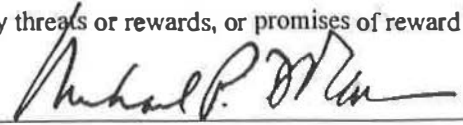
United States of America _____)
_____ District of _____)

I, Michael P. Dolan, am the Deputy Commissioner of the Internal Revenue Service (IRS). I have held this position for approximately six years and have been employed by the IRS for approximately 26 years. On April 15, 1997, I was interviewed by Special Investigator James Rice and Senior Auditor Randee Cook as a third party witness concerning an investigation being conducted by the Inspection Service regarding alleged improper influence and/or questionable practices by the Exempt Organization Division as they relate to the processing of applications from entities for tax-exempt status and the selection and examination process. Prior to this interview, I was furnished with Privacy Act Notice 417 which I read and understood. As Deputy Commissioner of the IRS, I wish to make the following statement:

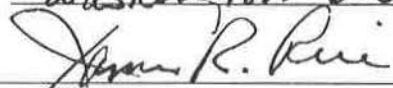
I am responsible for overseeing the management and administration of all IRS functions to include the Exempt Organization Division. I report directly to the Commissioner of Internal Revenue Service. With respect to applications submitted by organizations to IRS for tax-exempt status, I have never been requested, directed or influenced by any source within or outside the IRS to expedite or delay the processing of any application for questionable or politically motivated reasons. I have never requested or directed any other IRS employee to do the same. With respect to the Exempt Organization Division's selection and examination process, I have never been requested, directed or influenced by any source to examine or not examine an exempt organization's tax return(s) based on the organization's political association. I also have never been directed or requested to personally intervene in any exempt organization audit for the purpose of expanding or limiting the examination for political or any reason. I have never requested or directed any IRS subordinate to do the same. I am also not aware of any other IRS official(s) who have received requests or orders similar to the above mentioned.


I have read the foregoing statement consisting of 1 page, 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 before me this 23
day of May, 1997,
at Washington D.C.


(Signature)
Special Investigator
(Title)
Internal Revenue Service


(Signature of witness, if any)

EVU101T

Affidavit

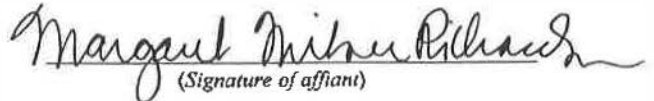
United States of America _____)
District of _____)

I, Margaret Milner Richardson, am the Commissioner of Internal Revenue. I have held this position since May 1993. On April 25, 1997, I was interviewed by Special Investigator James Rice and Senior Auditor Randee Cook as a third party witness concerning an investigation being conducted by the IRS Inspection Service regarding alleged improper influence and/or questionable practices by the Exempt Organization Division concerning the processing of applications from entities for tax-exempt status and the selection and examination process for tax exempt organizations. Prior to this interview, I was placed under oath and furnished with Privacy Act Notice 417 which I read and understood. As Commissioner of Internal Revenue, I state that:

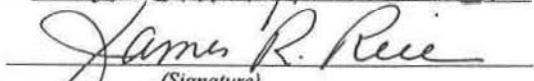
I am the senior official at the Internal Revenue Service, a bureau of the Treasury Department. I am responsible for all IRS functions, including the Exempt Organization Division. With respect to applications submitted by organizations to IRS for tax-exempt status, I have never been asked, directed or influenced by any source within or outside the IRS to expedite or delay the processing of any application for questionable or politically motivated reasons. I have never asked, directed or attempted to influence any other IRS employee to do the same. With respect to the Exempt Organization Division's selection and examination process, I have never been asked, directed or influenced by any source to examine or not examine any exempt organization's tax return(s) based on the organization's political association. I also have never been directed or asked to personally intervene in any exempt organization audit for the purpose of expanding or limiting the examination for political or any other reason. I have never asked or directed any IRS subordinate to do the same. I am also not aware of any other IRS official(s) who have received requests or orders similar to those described above. The only qualification to this statement is that from time to time members of Congress write on behalf of taxpayers requesting that the IRS handle a matter expeditiously. I have no recollection of any such specific requests.

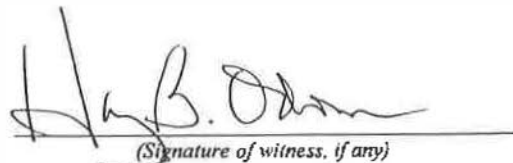
I have read the foregoing statement consisting of 1 page, each of which I have signed. I fully understand this statement and it is true, accurate and complete to the best of my knowledge and belief. I made the corrections shown and placed my initials opposite each.

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 before me this 23
day of May, 1997,
at Washington, D.C.


(Signature)
Special Investigator
(Title)
Internal Revenue Service


(Signature of witness, if any)

FWUINIT

Examinations

Procedures for Classifying Information Items And Conducting Church Examinations

As part of evaluating IRS policies, procedures and guidelines for classification and selection of Information Items, we:

- Reviewed the Internal Revenue Manual (IRM) and National Office (N.O.) memos.
- Evaluated IRM procedures related to conducting church examinations.

Conducted walkthroughs at the four Key District Offices (KDO's) to identify the field's procedures and practices for processing, screening, and controlling information items/referrals.

Summary of National Office Procedures

The following summarizes procedures for evaluating information items and conducting church examinations; as well as the results of walkthroughs at KDO's.

National Office Procedures for Information Items

During the course of performing their duties, employees from other functions receive information requiring some action by the EP/EO Division. Sources of these referrals include:

- informants;
- Criminal Investigation;
- Examination; and
- National Office.

The IRM sections covering the classification and selection of Information Items have been virtually unchanged since February 1986. Information Items are generally evaluated by the Returns Program Manager or designee. There are no specific guidelines for the issues to consider when evaluating Information Items. Generally, Information Items may be closed during the screening process. There are conflicting criteria as to when (or if) they can be destroyed. For example:

- One section of the procedures shows that Information Items which do not warrant securing of the return due to workload or lack of potential should be closed during the screening process; with an April 1996 requirement for a recordkeeping system to determine the location and

disposition of all such referrals (there was no such requirement previously)

- ◊ A related section calls for maintaining a follow-up file of referrals which are screened due to workload or require future action
- Information Items received from the N.O., but deemed to have no exam potential, should be noted and kept in an administrative file regarding the organization.
- In addition, Information Items selected for examination and for which a tax return is requested should be attached to the return for reference during the examination.
- Another portion of this same IRM shows that Information Items related to returns with no audit potential may be screened out and destroyed; with an April 1996 requirement to maintain a recordkeeping system to show why the referral was screened out.
- However, CID referrals with no examination potential can be screened out and destroyed if the return has not been requested; but if the return has been requested, the item should be attached to the return even if there is no examination potential.

To clarify when Information Items can and can not be destroyed, we contacted a National Office manager who advised that Information Items are destroyed only when no examination is warranted -- regardless of whether or not the return has been requested. Those items with audit potential should be associated with the return or maintained in a follow-up file.

The IRM gives field management broad discretion in local coordination and development of local procedures.

Giving Priority to National Office Information Items

The IRM contained no mention of giving priority to Information Items forwarded to the field by the N.O.

Tracking Information Items in the Field

In August 1990, the N.O. Exempt Organization (EO) Division issued a memo instructing the field to provide input on the disposition of all referrals requiring a response.

- This action was taken after a Congressman asked Service management what was done with information he provided about inappropriate activities by an Exempt Organization.
- The 1990 procedures were used until 1994, when staffing cuts precluded the N.O. from actively tracking this information.
- As a result, when questions were raised about the volume of referrals in light of recent new articles, EO

employees in the N.O. had to use available data to "construct" statistics on the volume of referrals during Fiscal Years 94-96.

Subsequently, the IRM was updated in April 1996 to require that a recordkeeping system be in place to provide information on all referrals, including their location and disposition. This was the only update to this section of the IRM since August 1993.

In November 1996, the N.O. issued another memorandum on tracking referrals to field offices. In summary, the memo required that a copy of all referrals be sent to the N.O. along with a description of the issue which generated the referral.

Conclusion

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 when Information Items should be destroyed.
- The IRM gives field management broad discretion in local coordination and development of local procedures.

Procedures for Classification and Selection of Churches for Examination

- The IRM contains no specific classification guidelines for selecting churches for an inquiry or examination other than the general procedures for all other Information Items.
- IRM procedures for conducting church examinations were specific with respect to:
 - ◊ Steps the Service must follow to initiate a church inquiry or examination.
 - ◊ Issues that should be addressed during the examination.
- Congress wanted to protect the rights of legitimate churches without unduly hindering Service efforts to eliminate tax-avoidance schemes.
- Internal Revenue Code (IRC) section 7611 provides detailed rules on church tax inquiries.

- A Tax Inquiry (other than an examination) provides a basis for determining whether an organization qualifies for tax exemption as a church; and is initiated only when the Regional Commissioner believes the organization may not be exempt, had unrelated business income, or is otherwise engaged in activities subject to any IRC tax.
- The IRM shows that information from 3rd party sources may provide "reasonable belief" a church tax inquiry/examination should be initiated Third party sources include newspaper/magazine articles; television/radio reports; documents filed with the Service; individuals, informants.
- EP/EO Key District Offices may confer with District Counsel for an opinion as to whether an inquiry is warranted.
- Churches have 15 days to respond to the inquiry letter
- Summons procedures are available should organization refuse to comply.
- Inquiry to be completed within 90 days.
- The end result of an inquiry is to either send a Notice of Examination or take no further action.
- Examination procedures are contained in IRM 7(10)71.72. The scope of a church examination includes a review church records and religious activities only to extent necessary to determine Federal tax liabilities. This includes:
 - 0 Determining initial or continued qualification of the organization's exempt status.
 - 0 Determining any tax due from unrelated business activity or other activities subject to tax.
 - 0 Reviewing corporate and financial records.
- The IRM cites a 2-year period for completing the examination.
- In large part, this entire IRM section has been unchanged since August 1985.

Conclusion

Procedures for church examinations were:

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

Procedures and Practices for Processing Information Items/Referrals at the Key District Offices

We conducted walkthroughs at the four KDOs to identify the procedures and practices for processing, screening, and controlling information items/referrals.

Summary of Practices

- No local procedures for processing information items/referrals. Two of the four KDOs had procedures but they were incomplete for processing information items/referrals.
- The KDOs did not maintain a record-keeping system for tracking information items/referrals 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/referrals for audit potential.
- The information items/referrals 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/referrals 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/referrals were processed, screened, and controlled. Information items/referrals were screened intermittently and seldom annotated as to why the referral was not selected for examination. Information items/referrals 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.

Below is a breakdown of the practices and procedures at the four KDOs.

Brooklyn KDO

We determined that information items/referrals are not controlled until the Return Classification Specialist (RCS) evaluates them for examination potential. We also determined that the KDO had an incomplete record-keeping system for tracking information items/referral from receipt to disposition. Sporadically, the RCS would check AIMS to update manual log to show the disposition of the information items/referrals. Based on our limited review of the log, it appears that the log has not been updated for several years. In addition, the KDO does not have specific criteria for evaluating the information items/referrals for audit potential, it is based on the knowledge and experience of the RCS. Referrals not selected for examination are filed and retained for two years.

Below is an overview of the walkthrough:

- Return Program Manager (RPM) Branch has local procedures for processing items/referrals.
- Referrals are received in RPM and are placed in a pending file by tax period until the future years return is filed.
- Referrals are not tracked until they are evaluated by the RCS for audit potential.
- Information items/referrals with no examination potential are filed and retained for two years.
- No specific criteria is used to evaluate information items/referrals, for examination potential is based on the knowledge and experience of the RCS.
- Information items/referrals with examination potential are controlled on AIMS with a source code 60, Information Report.
- Periodically the RCS will check AIMS to update manual log to show the final disposition.

Conclusion

The Brooklyn KDO needs to strengthen their practices and procedures for processing, screening, and controlling information items/referrals. Information items/referrals were not always 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 status or disposition of information items.

Dallas KDO

We determined that the KDO did not have local procedures for processing information items/referrals. We also determined

that the KDO did not have an effective record-keeping system for tracking information items/referral from receipt to disposition. In addition, the KDO did not have specific criteria for evaluating the information items/referrals for audit potential. The selection criteria was based on the knowledge and experience of the Return Classification Specialist (RCS). Referrals not selected for examination were destroyed shortly after the evaluation and the KDO did not maintain a record-keeping system that explained why the non-examined items/referrals were not selected for examination and destroyed.

Below is an overview of the walkthrough:

- No local procedures.
- Information items/referrals are centralized in the Planning and Special Procedures (PSP) Branch.
- Inaccurate or incomplete tracking system.
- The Return Classification Specialist (RCS) evaluate referrals for examination potential.
- No specific criteria is used to evaluate items/referrals it is based on the knowledge and experience of the RCS.
- Information items/referrals with examination potential are controlled on AIMS with a source code 60, Information Reports.
- Information items/referrals with no examination potential are destroyed shortly after evaluation.
- Final Disposition of information items/referrals is unknown to classifiers.

Conclusion

The Dallas KDO does not have effective procedures and practices for processing, screening, and controlling information items/referrals. Information items/referrals 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 status or disposition of information items.

Baltimore KDO

We determined that the KDO did not have local procedures for processing information items/referrals. We also determined that the KDO did not have an effective record-keeping system for tracking information items/referral from receipt to disposition. In addition, the KDO did not have specific criteria for evaluating the information items/referrals for audit potential. The selection criteria was based on the

knowledge and experience of the Branch Chief. Referrals not selected for examination were destroyed six months after the evaluation and the KDO did not maintain a record-keeping system that explained why the non-examined items/referrals were not selected for examination and destroyed.

Below is an overview of the walkthrough:

- No written local procedures.
- National Office information items/referrals are received by Branch I.
- All other information items/referrals are received by the Classification Branch.
- Chief, Branch I determines examination audit potential for all information items/referrals
- Some information items/referrals are assigned directly to a group or agent by the Branch Chief.
- Other information items/referrals go through classification to be assigned to a group.
- Inaccurate and incomplete tracking system.
- Final disposition of information items/referrals are unknown to classifiers.
- Information items/referral not selected for examination are destroyed after six months evaluation.

Conclusion

The Baltimore KDO does not have effective procedures and practices for processing, screening, and controlling information items/referrals. Information items/referrals 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 status or disposition of information items.

Los Angeles KDO

We determined that the KDO had an incomplete record-keeping system for tracking information items/referral from receipt to disposition. In addition, the KDO does not have specific criteria for evaluating the information items/referrals for audit potential, it is based on the knowledge and experience of the group managers. Referrals not selected for examination were destroyed almost immediately after the evaluation and the KDO did not maintain a record-keeping system that explained why the non-examined items/referrals were not selected for examination and destroyed.

Below is an overview of the walkthrough:

- Local procedures dated October 18, 1994.

- Information items/referrals are centralized in Classification Branch.
- Information items/referrals are sent to groups for audit consideration.
- The groups determine the examination potential.
- Information items/referrals are tracked manually.
- Related returns are not controlled.
- Non-examined items/referrals are destroyed almost immediately.
- Final disposition of information items/referrals unknown to classifiers.

Conclusion

The Los Angeles KDO needs to strengthen their procedures and practices for processing, screening, and controlling information items/referrals. Information items/referrals were not always 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 status or disposition of information items.

Determination Letters

QUESTIONABLE EXEMPT ORGANIZATION EXAMINATION SELECTION ACTIVITIES

Determination Letter Processing

As part of evaluating IRS policies, procedures and guidelines for evaluating applications for recognition of exempt status, we:

- Reviewed Internal Revenue Manual (IRM) procedures.
- Completed walkthroughs of Determination Letter processing in both the field and National Office (N.O.).

Summary of IRM Procedures

- Incoming applications are controlled on the Employee Plan/Exempt Organization (EP/EO) Determination System (EDS).
- The IRM shows that determination letters should be issued as quickly as possible following receipt of completed applications and correct user fees.
- There is no specific IRM criteria on the number of days to complete application processing.
 - ◊ The N.O. does issue an annual "EP/EO Measurements" memo which includes calendar day "measures" for processing Determination Letters.
 - ◊ Both National and Regional measures established.
 - ◊ Regional measures not uniform due to transitional nature of centralized processing in Cincinnati.
- Applications should be screened within 10 working days to determine if the applicant already established exempt status.
- Cases generally worked on a first in first out basis
- Requests for an "expedite" determination letter must be in writing and contain compelling reasons.
- Requests for expedite treatment are generally approved by the Chief, EP/EO Division, when:
 - ◊ A grant is pending and failure to secure it may adversely impact the organization's operations
 - ◊ The purpose of the newly created organization is to provide disaster relief.
 - ◊ There have been undue delays by the IRS.
 - ◊ Any other situation where the Division Chief (or delegate) feels such service is warranted.

- Technical screening is the inspection of applications to identify and quickly approve those from organizations which have historically demonstrated high levels of compliance with the Internal Revenue Code (IRC) and regulations.
 - ◊ Applications approved in this manner are referred to as "screen-outs".
 - ◊ More efficient processing of such cases allows additional resources to be devoted to the examination program.
- The IRM includes a description of what data must be present for an application to be considered as "clerically complete".
- The IRM also includes instructions for applications:
 - ◊ From an already-exempt organization that changes its purpose, character, name, or method of operation.
 - ◊ Filed using an incorrect paragraph of IRC 501(c).
- There are certain applications which districts cannot handle and should be sent to the N.O. for a direct ruling.
 - ◊ At the time of referral, the organization should receive a letter advising that its application has been sent to the N.O.
 - ◊ In addition, those cases having sensitive and/or highly complex issues may be referred to Chief Counsel for further consideration.
- This action is taken with applications presenting questions which are not specifically covered by statute, Treasury decision, or by ruling, opinion or court decision.
- Other than in certain extraordinary circumstances, applications received directly in the N.O. should be forwarded to a Key District Office (KDO) for initial screening.
 - ◊ For cases transferred to the N.O. for further processing, the KDO retains responsibility for controlling the statute and obtaining a consent to extend it (this should be done when that statute is within 180 days).
 - ◊ The manual is unclear as to whether the N.O. or the field should take action(s) to protect the statute on applications initially received and screened in the N.O.
- There are various day criteria cited for follow-up actions to secure additional information.
- Form 6038, Exempt Organization: Application Worksheet, used to ensure uniform standards applied in determination processing.

Conclusion

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 which have historically demonstrated a high level of compliance, such as the).
- Forwarded to the N.O. for a decision.

OS

However, 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.

In addition, the IRM contains no definitive standard for the number of days by which applications should be processed. This is most likely due to variances in the types of applications received and potential delays in securing additional information needed to complete processing of some applications. The N.O. does issue an annual "EP/EO Measurements" memo containing standards used to assess the field's performance.

Summary of Walkthroughs: Cincinnati and National Office

Cincinnati

- The Service planned to centralize Determination Letter processing in Cincinnati. However, due to various external factors, the consolidation concept had to be re-scoped. As such, the Cincinnati is responsible for:
 - ◊ Receiving and controlling incoming applications.
 - ◊ Processing user fees.
 - ◊ Conducting an initial screening of applications to identify cases which can be processed as "merit closures" under "Technical Screening" guidelines.
- Because of this change, and insufficient staffing in Cincinnati, some applications are shipped to other KDO's for evaluation.
 - ◊ A record is maintained to show the volume of applications sent to other KDO's.
- Managers in Cincinnati developed "EO Centralization Procedures" containing an overview of Cincinnati Service Center and Ohio KDO processing. The purpose of these procedures was to assist groups which would be working applications which could not be processed as "merit closures".
 - ◊ These procedures were consistent with guidelines contained in IRM 7600, EO Determination Letter Processing.
- In his under-oath interview, the Division Chief in Cincinnati advised that he had never been approached by anyone with respect to expediting or delaying an application for recognition of exempt status.

Processing Overview - Cincinnati

- Applications for exemption are initially received at the Cincinnati Service Center.
- Application fees extracted, cases controlled in a batch mode, acknowledgment letters sent, applications forwarded to Cincinnati for evaluation.
- Applications worked in received date order
- Managers use numerous reports to monitor the age and volume of unprocessed applications.
- Some applications sent to other KDO's for evaluation due to a lack of staffing in Cincinnati.
- District managers developed a system for tracking the volume of applications sent to other districts.
- Division and Branch managers use various reports to monitor processing timeliness and inventory levels.

- The district utilizes a review process to monitor quality in the areas of completeness, case management, technical issues and supporting documentation.

National Office

- While criteria in the IRM is generally used when determining which applications are referred to the N.O., there are many special circumstances which result in referrals.
- "Case Processing Procedures" developed by the N.O. provide guidelines for the processing of workload items. The procedures set forth instructions relating to case preparation, case review, case coordination, case assistance, and recommendations for examination for workload items.
- Each application receives a control number and is reviewed to determine if the proper user fee was submitted. The organization is contacted if the appropriate user fee is not provided.
- Applications are controlled on a N.O. database and assigned to a specific branch.
- After initial assignment to a branch, the application is reviewed by the Branch Chief (and the division chief if the case is considered "sensitive") for assignment to a Tax Law Specialist (TLS). The case review is used to match the issues with the TLS's experience and education.
- Branch Chiefs track the progress of all assigned cases via reports which include information such as the assignment date, status, total hours charged and age
- Branch Chiefs also conduct an annual workload review.
- The Division Director conducts 3 or 4 operational reviews a year for each branch.
- The Commissioner's office is informed when cases are considered sensitive via reports titled "Report of Significant Matter in EP/EO".

Conclusion

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. There was no evidence of influence to expedite or delay the processing of applications for exempt status which were received in Cincinnati.

The N.O. is also adhering to established IRM guidelines for application processing; and has developed local procedures to supplement those in the IRM.

Treasury Department, Administration and Congressional Correspondence

Summary of the Procedures for Handling White House, Congressional, and Treasury Correspondence

We conducted a walkthrough of Legislative Affairs Division to identify the procedures and practices for processing the correspondence received from the White House, Members of Congress, and Treasury. We also tested the procedures by observing the practices and reviewing correspondence from the Legislative Affairs database.

Legislative Affairs Division is responsible for controlling the Commissioner's Mail, and correspondence referred from Members of Congress, the White House and Treasury's Offices of the Executive Secretariat and the Assistant Secretary for Legislative Affairs. Legislative Affairs has four employees responsible for controlling the correspondence and assigning the correspondence to the appropriate office for preparation of a response. Currently, Legislative Affairs uses the procedures, dated November 1996, from the Chief, Management and Administrative. These procedures were issued to the National Office and the field for handling correspondence controlled by Legislative Affairs.

Summary of Procedures and Practices

All correspondence received at 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).

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 Avenue 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).

Periodically, the White House may FAX correspondence to Legislative Affairs because of the urgency of the letter. Normally the White House will call before FAXing the correspondence. For example, a taxpayer writes the White house explaining that the IRS

is going to levy their bank accounts shortly. Since time is of the essence, the White House will call Legislative Affairs and FAX the correspondence.

The initial inquiry will be imaged (maximum 10 pages) on ECMS and assigned to the appropriate Chief and assigned a control number. The control number will remain the same throughout the process. Specific due dates for a reply to the initiator will be established once the correspondence is controlled on ECMS. The ECMS coordinator is responsible for updating the system about where the assigned correspondence is, which office is responsible for preparing the response and what has occurred regarding the correspondence.

The ECMS Coordinator in the Chief Officer's office or the Regional Commissioner's office is responsible for closing controls assigned to their offices. Signed documents must be attached to the control ticket (control sheet) in ECMS. If the 10 page limit is exceeded, a list of documents will be attached to the control ticket for audit purposes. A case is considered closed only when the final reply has been mailed. Legislative Affairs will maintain all correspondence for two years and then it will be destroyed. The ECMS system is not designed to track the final action on information items or referrals forwarded to the Key District Offices (KDOs). Once the items are sent to the KDOs, it becomes the responsibility of the KDO to track the items until final disposition.

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 the Taxpayer

We reviewed the IRM 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.

Initial Contact

- Contact the taxpayer to set up an appointment at a time and place that is convenient to both the taxpayer and the Service.
- Schedule the examination at a place where the taxpayers books and records are maintained.
- Inform the taxpayer which documents and files should be available for the examination.
- Follow-up with letter 1126(DO) confirming the appointment and summarizing the list of records to be made available during the examination, if the initial contact was made by telephone. Send letter 1398 (DO) if the organization cannot be contacted by telephone for initial the initial contact.
 - Letters 1126(DO) and 1398(DO) were revised in September 1984 and explain why the Service is examining the organization and also explain the taxpayers' appeal rights.
 - The letters also explain that the Service examines returns to verify the correctness of income or gross receipts, deductions, and credits and to determine whether the organization is operating in the manner stated and for the purpose set forth in its application for recognition of exemption.

Responding to Taxpayer's Question on Reason for Examination

- Try to make the taxpayer feel at ease and greet them in a warm and relaxed matter, not in an overbearing, intimidating manner. The initial interview is extremely important therefore the communications with the taxpayer should be effective in order to receive the most valuable information.
- Explain the examination process and the appeal rights to them and the reason their return was selected.

- Explain to the taxpayer how the return was selected for examination.
- The taxpayer will be provided with a copy of Publication 1, Your Rights As a Taxpayer, if one was not sent with the initial appointment letter.

Conclusion

The IRM and the training material were modeled after one another. The training material was last revised in February 1988 and the IRM in August 1992. The 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. Included with the letter, as an enclosure is Publication 1, Your Rights As a Taxpayer. Overall, the Service is attempting to be straight forward with the taxpayers and wants the revenue agents to be open and honest with them regarding the examination.

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IN THE UNITED STATES DISTRICT COURT FOR THE
EASTERN DISTRICT OF CALIFORNIA

WESTERN CENTER FOR JOURNALISM,
d/b/a WESTERN JOURNALISM CENTER,

Plaintiff,

v.

THOMAS CEDERQUIST, MARGARET
MILNER RICHARDSON, JOHN DOES 1-3
AND JANE DOE NO. 4,

Defendants.

Civil No. S-98-9872 GEB JFM

DECLARATION OF JACK PIKE

DEPARTMENT OF THE TREASURY, INSPECTOR
GENERAL FOR TAX ADMINISTRATION

1. I am a special agent employed by the Inspector General's office for the United States
Department of the Treasury. Before January 18, 1999, I was employed by the IRS Inspection Division.
INTERNAL SECURITY FUNCTION. AS AN INSPECTOR SERVICE,
The Inspection Division was responsible for, among other duties, investigating allegations of misconduct
INTERNAL SECURITY FUNCTION SERVICE ABOLISHED
by IRS employees. On January 18, 1999, the IRS Inspection Division was abolished and its employees
FOR TAX ADMINISTRATION
became employees of the Inspector General's office for the Department of the Treasury.
SUPERVISOR IN CHARGE DAVID RICHARDSON

2. In 1997, one of my colleagues and I interviewed John Roux, in connection with an
CENTERED ON THE EAST COAST.
investigation ~~Internal Security~~ on. At the outset of the interview, I showed Mr. Roux ~~my~~ ^{OUR} credentials. I
SIC RICHARDSON AND I
explained to Mr. Roux that ~~we~~ ^{WE WERE} interviewing him in connection with allegations that the Western
AT THE REQUEST OF THE OUT OF STATE
Journalism Center had made about an IRS audit. The allegations had been made in an October 1996,

CASE INSPECTOR,

and in the being the letter of 1996
the column.

Street Journal, ~~written by~~ Joseph Farah of the Western
under the title of
 ents alleged y made by an IRS agent, Thomas Cederqu

nt. It was my understanding that Mr. Roux was the acc

and I confirmed t .at fact from Mr. Roux during the interview.

federal enforcement officers, *INSPECTORS* *Internal Security Section*
~~special agents~~ of the Inspection Division routinely

their duties. I did not display my gun during my interv

Roux and did not

~~tell him I was armed. My credentials state that I, as a federal law enforcement officer, am authorized to~~

~~carry a gun.~~

among the things,
and would not "to carry firearms".

although did not bring up the subject, I was

Roux truthfully if he questioned whether or

I have no specific recollection of any such question by
 I declare under penalty of perjury that the foregoing is true and correct.

Executed on January 1999.

the way or the other
 JACK PIKE

LANGUAGE THAT I FIND ACCEPTABLE FOR ANY DECLARATION RELATING TO THE WJC

1. I am a special agent employed by the Department of the Treasury, Inspector General for Tax Administration. Before January 18, 1999, I was employed as an Inspector by the Internal Revenue Service Inspection Service, Internal Security Function. The Internal Security Function was responsible for, among other duties, investigating allegations of misconduct by Internal Revenue Service employees. On January 18, 1999, the Inspection Service was abolished and the majority of its employees became employees of the Inspector General for Tax Administration.
2. During 1997, Supervisor-In-Charge (SIC) David Richardson and I interviewed Jolui Roux, in connection with an investigation being conducted from the East Coast. At the beginning of the interview, SIC Richardson and I showed Mr. Roux our credentials. I explained to Mr. Roux that we were interviewing him, at the request of the our of state case inspector, in connection with allegations that had been made about an Internal Revenue Service audit of the Western Journalism Center. The allegations had been made in a column that appeared in *The Wall Street Journal* during the latter part of 1996, under the byline of Joseph Farrah of the Western Journalism Center. The column mentioned statements allegedly made by Internal Revenue Service agent Thomas Cederquist to the Western Journalism Center's accountant. It was my understanding that Mr. Roux was the accountant mentioned in the column, and I confirmed that fact from Mr. Roux during the interview.

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8 IN THE UNITED STATES DISTRICT COURT FOR THE
9 EASTERN DISTRICT OF CALIFORNIA

10 WESTERN CENTER FOR JOURNALISM,
11 d/b/a WESTERN JOURNALISM CENTER,

12 Plaintiff,

13 v.

14 THOMAS CEDERQUIST, MARGARET
15 MILNER RICHARDSON, JOHN DOES 1-3
AND JANE DOE NO. 4,

16 Defendants.

Civil No. S-98-9872 GEB JFM

DECLARATION OF GARY BELL

17
18
19 1. I was the Chief Inspector of the IRS Inspection Division until _____, 199 . The Inspection
20 Division was responsible for, among other duties, investigating allegations of misconduct by IRS
21 employees.

22 2. In 1997, the Inspection Division commenced an investigation of claims, published in the
23 media, that the IRS was improperly selecting tax-exempt organizations for audit. One of those media
24 reports was an October 22, 1996, column in *The Wall Street Journal*, written by Joseph Farah, who was
25 identified as the executive director of the Western Journalism Center. That column claimed that the
26 Western Journalism Center had been improperly selected for audit, and quoted a statement allegedly
27 made by an IRS agent, Thomas Cederquist, to the Western Journalism Center's accountant.
28

1 3. Because Farah's column mentioned Cederquist's alleged statement to the accountant, the
2 Inspection Division's investigation included an interview of that accountant, John Roux. That interview
3 was conducted by IRS Inspection Division special agent Jack Pike.

4 4. The Inspection Division's investigation found no improper conduct by either Thomas
5 Cederquist or Margaret Richardson in connection with any IRS audit of the Western Journalism Center.
6

7 I declare under penalty of perjury that the foregoing is true and correct.
8

9 Executed on January 22, 1999.
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DRAFT

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13 Gary Bell
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