



*The Exempt Organizations Function  
Effectively Processed Requests for  
Tax-Exempt Status From Charitable  
Organizations Supporting Hurricane Relief*

**June 2006**

**Reference Number: 2006-10-089**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

June 5, 2006

**MEMORANDUM FOR** COMMISSIONER, TAX EXEMPT AND GOVERNMENT ENTITIES  
DIVISION

*Michael R. Phillips*

**FROM:**

Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – The Exempt Organizations Function Effectively  
Processed Requests for Tax-Exempt Status From Charitable  
Organizations Supporting Hurricane Relief (Audit # 20060900.H04)

This report presents the results of our review of the Exempt Organizations (EO) function's oversight of tax-exempt organizations involved with Hurricane relief. The overall objective of this review was to assess the adequacy of the EO function's efforts to ensure new tax-exempt organizations providing assistance to individuals affected by Hurricanes Katrina and Rita were properly approved and referrals of potentially abusive charitable organizations were given priority treatment.

This review was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the Federal Government in the aftermath of Hurricanes Katrina and Rita. As such, a copy of the report will be forwarded to the PCIE Homeland Security Working Group, which is coordinating the Inspectors' General reviews of this important subject.

*Synopsis*

Hurricane Katrina was the most destructive and costliest natural disaster to hit the United States. The storm surge breached the levees that protected New Orleans, Louisiana, from Lake Pontchartrain, causing the flooding of New Orleans. The Hurricane also damaged the coastal areas of Louisiana, Mississippi, and Alabama. The *Federal Response to Hurricane Katrina, Lessons Learned*, dated February 2006, estimates the damage along the Gulf Coast is \$96 billion. Almost immediately after Hurricane Katrina made landfall and the extent of the devastation became known, charities began receiving record amounts of donations for Hurricane relief. In addition, on September 24, 2005, Hurricane Rita made landfall between



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Sabine Pass, Texas, and Johnson's Bayou, Louisiana. Hurricane Rita's storm surge reopened some of the levee breaches caused by Hurricane Katrina, reflooded parts of New Orleans, and caused extensive damage in the coastal areas of southwestern Louisiana. On February 27, 2006, *The Washington Post* reported private, nonprofit charities had raised \$3.27 billion in donations for Hurricane Katrina relief, as compared to the \$2.8 billion in donations raised after the September 11, 2001, terrorist attacks.

On September 6, 2005, the Internal Revenue Service (IRS) announced it would provide an expedited process for new organizations seeking tax-exempt status to provide relief for victims of Hurricane Katrina.<sup>1</sup> We evaluated three aspects of this processing,<sup>2</sup> including whether the EO function properly approved requests for expedited processing of Applications for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code (Form 1023), followed procedures designed to ensure Forms 1023 contained the necessary information for determining tax-exempt status, and took actions to ensure the public was timely notified of Hurricane-relief organizations that were granted tax-exempt status. In all three areas, the EO function effectively and timely completed its processing.

***The EO function quickly processed and approved new Hurricane-relief organizations' Forms 1023, which better positioned organizations to raise funds and provide relief to Hurricane victims.***

In addition, the EO function has established procedures to ensure referrals of potentially abusive exempt organizations received from both inside and outside the IRS are reviewed to determine if the allegations should be sent to an EO Examinations function group in the field for further development. Referrals related to Hurricanes Katrina, Rita, and Wilma are sent to the Financial Investigations Unit (FIU) for review. The FIU is a new unit within the EO Examinations function designed to detect and deter fraudulent transactions within the exempt organizations community through examinations of organizations identified as potentially involved with fraudulent transactions. The FIU has developed draft procedures to identify potentially abusive fundraising schemes; to determine if the schemes involve an exempt organization(s); and to take action to refer the organization(s) to the EO Examinations function, the EO Determinations function, or another IRS division, as appropriate. These procedures are currently being reviewed for implementation.

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<sup>1</sup> The IRS extended this treatment to organizations seeking tax-exempt status to provide relief to victims of Hurricanes Rita and Wilma. Hurricane Wilma made landfall in Florida on October 24, 2005.

<sup>2</sup> Although the IRS included Hurricane Wilma in the expedite processing of Forms 1023 and review of referrals of potentially abusive exempt organization activity, we focused on the EO function's processing of Forms 1023 and referrals of potential abuse relating to Hurricane disaster relief for Hurricanes Katrina and Rita only.



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*Recommendations*

We made no recommendations in this report; however, key IRS management officials reviewed the report prior to issuance and agreed with the facts and findings presented. EO function management also agreed our report will provide the following measurable benefit on tax administration: improved taxpayer burden. One tax-exempt organization's address was corrected in the *Cumulative List of Organizations described in Section 170(c) of the Internal Revenue Code of 1986* (Publication 78).

Copies of this report are being sent to the IRS managers affected by the report. Please contact me at (202) 622-8500 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.



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## *Background*

Hurricane Katrina was the most destructive and costliest natural disaster to hit the United States. On August, 29, 2005, Hurricane Katrina made landfall near Plaquemines Parish, Louisiana. The storm surge breached the levees that protected New Orleans, Louisiana, from Lake Pontchartrain, causing the flooding of New Orleans. The Hurricane also damaged the coastal areas of Louisiana, Mississippi, and Alabama. The *Federal Response to Hurricane Katrina, Lessons Learned*, dated February 2006, estimates the damage along the Gulf Coast is \$96 billion. On September 24, 2005, Hurricane Rita made landfall between Sabine Pass, Texas, and Johnson's Bayou, Louisiana. Hurricane Rita's storm surge reopened some of the levee breaches caused by Hurricane Katrina, reflooded parts of New Orleans, and caused extensive damage in the coastal areas of southwestern Louisiana.

Almost immediately after Hurricane Katrina made landfall and the extent of the devastation became known, charities began receiving record amounts of donations for Hurricane relief. On February 27, 2006, *The Washington Post* reported private, nonprofit charities had raised \$3.27 billion in donations for Hurricane Katrina relief, as compared to the \$2.8 billion in donations raised after the September 11, 2001, terrorist attacks.

On September 6, 2005, the Internal Revenue Service (IRS) announced it would provide an expedited review process for new organizations seeking tax-exempt status to provide relief for victims of Hurricane Katrina. These new organizations were advised that, when applying for tax-exempt status, they should write at the top of their Applications for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code (Form 1023) the words "Disaster Relief, Hurricane Katrina," to highlight their involvement with disaster relief. The IRS Commissioner stated, "We want to make sure that we do all we can to help new charitable organizations get up and running so they can begin providing the assistance the victims of this terrible disaster so desperately need. Just as we did after September 11, 2001, we will put these applications at the head of the queue and turn them around promptly." The Commissioner also promised, "The IRS will do everything possible to assist both taxpayers and charities in this difficult time." The IRS extended this treatment to organizations seeking tax-exempt status to provide relief to victims of Hurricanes Rita and Wilma.<sup>1</sup> In this audit, we focused on the Exempt Organizations (EO) function's processing of Forms 1023 and referrals of potentially abusive exempt organization activity relating to Hurricane disaster relief for Hurricanes Katrina and Rita only.

***The IRS quickly responded to Hurricane Katrina and committed to assist both taxpayers and charities after the Hurricane.***

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<sup>1</sup> Hurricane Wilma made landfall in Florida on October 24, 2005.



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The IRS also began providing broad tax relief to affected individuals, including extending the time individuals in the Presidential Disaster Areas had to file tax returns and submit tax payments and advising citizens seeking to make donations for Hurricane victims to seek out qualified charities by searching an online list of charities with approved tax-exempt status on the IRS Internet site (IRS.gov). The IRS also warned taxpayers about organizations committing possible fraudulent acts related to disaster relief and recommended using IRS.gov to search for existing legitimate, qualified charities. In addition, the IRS created a Disaster Relief Webpage that included links related to information on recent disaster declarations (Hurricanes Katrina, Wilma, and Rita), disaster relief, and a “Frequently Asked Questions” section developed from summaries of telephone calls to the Tax Exempt and Government Entities Division Customer Account Services function.

Treasury Inspector General for Tax Administration (TIGTA) officials met with staff of the Senate Finance Committee on September 13, 2005, to discuss the TIGTA’s short- and long-term plans to provide oversight of the IRS’ efforts to provide relief to taxpayers. This audit is part of the TIGTA’s short-term approach.

This review was performed at the EO function National Headquarters in Washington, D.C.; the EO Rulings and Agreements office in Cincinnati, Ohio; the EO Examinations function Headquarters in Dallas, Texas; and the EO Examinations function field offices in Chicago, Illinois, and St. Paul, Minnesota, during the period October 2005 through March 2006. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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## *Results of Review*

### ***The Exempt Organizations Function Properly Expedited and Processed Requests for Tax-Exempt Status From Charitable Organizations Supporting Hurricane Relief***

The IRS EO function quickly processed and approved new Hurricane-relief organizations' Forms 1023, which better positioned the organizations to raise funds and provide relief to Hurricane victims. We evaluated three aspects of this processing, including whether the EO function properly approved requests for expedited processing of Forms 1023, followed procedures designed to ensure Forms 1023 contained the necessary information for determining tax-exempt status, and took actions to ensure the public was timely notified of Hurricane-relief organizations that were granted tax-exempt status. In all three areas, the EO function effectively and timely completed its processing.

#### **Overall, the EO function properly expedited requests for tax-exempt status related to Hurricane relief**

Based on our review of samples of expedite requests for the period August 30 to November 4, 2005, the EO function properly determined whether to expedite the assignment of the Forms 1023 to the EO Determinations group in 76 of the 80 sampled requests. The sampled requests approved for expedited processing generally met the IRS' criteria, and those that did not meet the criteria were denied.

The 80 requests in our 3 samples were randomly selected from a universe of 274 requests<sup>2</sup> for expedited processing. These requests included:

- Expedite requests (submitted with Form 1023) from August 30, 2005, that were approved, and the Form 1023 was closed<sup>3</sup> by the EO function on or before November 4, 2005.
- Expedite requests (submitted with Form 1023) from August 30, 2005, that were denied.
- Both approved or denied expedite requests for Forms 1023 that had been submitted prior to September 3, 2005, but the organizations subsequently submitted requests for expedited processing.

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<sup>2</sup> See Appendix IV for detailed information on our sampling methodology.

<sup>3</sup> The EO function made a determination regarding the tax-exempt status of the requesting organization.





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Organizations that were intending to provide Hurricane relief began sending in their Forms 1023 with a request for expedited processing on September 2, 2005, and the EO function approved the first Form 1023 under the expedited process on September 9, 2005, just 11 days after Hurricane Katrina made landfall. As shown in Figure 1, requests for expedited processing sent to the IRS with Forms 1023 during the period September 2, 2005, through November 4, 2005, and entered into the EO function Hurricane Katrina/Rita/Wilma Inventory Report were worked quickly by EO function personnel to determine whether the Form 1023 should be expedited.

**Figure 1: IRS Inventory of Requests for Expedited Processing Submitted  
With Forms 1023 From September 2, 2005, to November 4, 2005**

	September 2005	October 2005	November 2005 (through 11/4/05)	Totals <sup>4</sup>
<b>Expedite Requests Received</b>	160	124	0	284
<b>Expedite Requests Approved</b>	72	139	18	229
<b>Expedite Requests Denied<sup>5</sup></b>	3	39	5	50

Source: The EO function Hurricane Katrina/Rita/Wilma Inventory Report (as of 11/04/05).

The EO function developed procedures for reviewing organizations' requests for expedited processing of Forms 1023 as a result of its experience with processing requests submitted after the September 11, 2001, tragedy. Currently, an organization seeking tax-exempt status may request that its application be expedited if the request is in writing (either written at the top of the Form 1023 or in a separate document) and if there is a compelling reason to expedite the request (e.g., if a grant is pending and failure to obtain the grant will have an adverse impact on the organization's ability to continue operations; if the purpose of the newly created organization is to provide disaster relief to victims of emergencies, such as floods and hurricanes; or if there was undue delay in issuing a determination letter based on problems within the IRS). Initially, the IRS approved any request for expedited processing following Hurricane Katrina, even though the organization may not have met the requirements for expedited processing. After reviewing some of the approved requests for expedited processing, the EO function decided to limit approval for expedited processing to those organizations showing that the planned disaster-relief activities were more than just an incidental part of their operations and would serve the broad public interest.

<sup>4</sup> Expedite decisions had not yet been made for five cases at the time of our review.

<sup>5</sup> In three instances, the date the expedite request was denied was not recorded.



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When new Forms 1023 are received, the Cincinnati Submission Processing Site<sup>6</sup> identifies any that contain requests for expedited processing, controls them on the Employee Plans/Exempt Organizations Determination System,<sup>7</sup> and mails them to the EO function. The EO function manually tracks them on a special disaster-relief expedite tracking spreadsheet and reviews them to determine if the applications should be expedited. If the expedite request is approved, the Form 1023 can be approved on merit (if the application is complete, or requires only minimal information, and meets the requirements of the Internal Revenue Code) or immediately assigned for additional review by the EO Determinations function. If the expedite request is denied, the Form 1023 may still be approved on merit or placed in unassigned inventory for assignment at a later date.

In addition, the IRS allowed an organization that had already submitted its application for tax-exempt status (existing applications) to later request expedited processing of its application because it had decided to include Hurricane relief as part of its activities. If the case was in unassigned inventory, the expedite request was added to the special tracking spreadsheet and either approved or denied. If the case was already assigned to a specialist or a field group, the expedite request was forwarded to the assigned group, and the specialist or group manager was responsible for determining whether expedite procedures should apply.

**The EO function followed procedures designed to ensure Forms 1023 contained all the necessary information to allow a determination to be made**

When the EO Determinations function initially reviews a Form 1023, it can approve the Form on merit or assign it to a specialist for further review. We reviewed the 54 cases<sup>8</sup> in our samples for which the EO function had approved the organizations' applications for tax-exempt status and determined that, in each of the 54 cases, the EO function followed procedures related to ensuring the Forms 1023 contained all the necessary information before tax-exempt status was approved. For a determination to be made, the EO function must ensure there is a complete application, including all applicable pages and schedules; an organizing document; bylaws, if adopted; financial data; and a narrative describing the organization's past, current, and future activities. We did not review the basis for the EO function's decision to grant tax-exempt status to any organization. The EO Rulings and Agreements function bases its decision to grant tax-exempt status on the information supplied by an organization and assumes the operations of the organization will be the same as those described in the Form 1023 submitted by the organization. Some of the organizations submitting Forms 1023 related to Hurricane relief may have only recently been formed and may have little or no history of past activities to report. The

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<sup>6</sup> Submission Processing sites process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

<sup>7</sup> The Tax Exempt and Government Entities Division uses the Employee Plans/Exempt Organizations Determination System to process and control determination letter applications.

<sup>8</sup> This included 50 new and 4 existing applications that were expedited due to disaster relief.

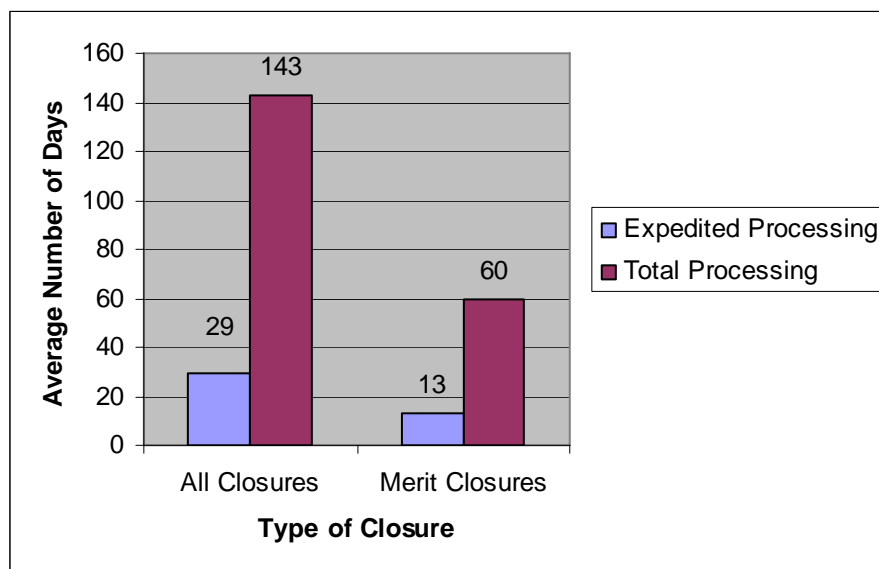


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EO Examinations function is responsible for determining whether a tax-exempt organization is operating in accordance with its exempt function.

Based on our review of EO function data, new applications granted expedited processing were processed by the EO Determinations function in a much quicker time period. As shown in Figure 2, the average processing time<sup>9</sup> for expedited applications<sup>10</sup> was much less than that for all applications closed from September 2005 through February 2006. This was primarily because Forms 1023 were expedited to the EO Determinations groups, not because the EO Determinations groups conducted a limited review of the applications before determining whether to approve or deny tax-exempt status.

**Figure 2: Average Processing Times for Expedited Forms 1023 and Total Forms 1023 (September 2005 Through February 2006)**



*Sources: Expedited processing data were obtained from the EO function Hurricane Katrina/Rita/Wilma Inventory Report; total processing data were obtained from the Employee Plans/Exempt Organizations Determination System.*

**The EO function generally ensured the public was timely notified of organizations granted tax-exempt status related to Hurricane relief**

As part of its regular practice, the IRS lists all organizations eligible to receive tax-deductible charitable contributions in the *Cumulative List of Organizations described in Section 170(c)* of

<sup>9</sup> The number of calendar days from the date the Form 1023 is postmarked by the United States Postal Service until the case is closed.

<sup>10</sup> These included new Forms 1023 submitted with expedite requests for which the IRS approved the requests for expedited processing and tax-exempt status.



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*the Internal Revenue Code of 1986* (Publication 78). Publication 78 is updated and issued in a paper version annually. It is also maintained electronically on IRS.gov and updated quarterly. EO function management ensured disaster-relief organizations whose exemptions were approved under expedited processing procedures due to disaster relief were included in an online addendum to Publication 78 maintained on IRS.gov. Based on discussions with EO function management, the online addendum was updated every 1 to 2 weeks to notify the public as quickly as possible.

We determined 53 of 54 organizations that requested expedited processing due to disaster-relief activities and whose applications for tax-exempt status were approved were accurately listed in the addendum to Publication 78. In one case, an organization's name was correctly listed in the addendum, but the city was incorrect. EO function management took immediate action to ensure the organization's city was correctly listed in the electronic version of Publication 78 on IRS.gov and deleted it from the addendum when we brought it to their attention.

***The Tax Exempt and Government Entities Division Has Developed  
Draft Procedures for Reviewing Referrals of Potentially Abusive  
Organizations Related to Hurricane Relief***

The EO function has established procedures to ensure referrals of potentially abusive exempt organizations received from both inside and outside the IRS are routed to the EO Examinations function Classification Unit, where they are input to the Information Referral Database. Referrals are normally screened in the Classification Unit to determine if the allegations should be sent to a committee for review or to an Examinations function group in the field for further development. However, in a September 2005 email, the Director, EO Examinations, required that the Classification Unit forward all referrals related to Hurricane Katrina directly to the Financial Investigations Unit (FIU). In addition, the Director, EO Examinations, informed us that referrals related to Hurricanes Rita and Wilma would also be forwarded to the FIU. The FIU is a new unit within the EO Examinations function designed to detect and deter fraudulent transactions within the exempt organizations community through examinations of organizations identified as potentially involved with fraudulent transactions.

The FIU has developed draft procedures to identify potentially abusive fundraising schemes; to determine if the schemes involve an exempt organization(s); and to take action to refer any organization(s) to the EO Examinations function Classification Unit, the EO Determinations function, or another IRS division, as appropriate. EO function officials believe this will result in initiating examination activities more quickly than its traditional approach<sup>11</sup> and allow them to

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<sup>11</sup> Examinations are traditionally not started until a year or two after the activity has occurred. However, disaster-relief activities are often completed within a shorter period. With these draft procedures, the FIU may refer a tax-exempt organization for examination before the organization has shut down operations.



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stop or correct potentially abusive disaster-relief activities before the organization decides to shut down. These procedures are currently being reviewed for implementation.

The EO Classification Unit received two Hurricane-related referrals during the period August 29, 2005, through November 4, 2005. Both of these referrals were sent to the FIU for development. In addition, we reviewed a judgmental sample of 24 referrals in the Information Referral Database to determine if we could identify additional referrals of potentially abusive Hurricane-relief organizations that should have been sent to the FIU. For our judgmental sample of 24 of 470 referrals received by the Classification Unit from August 29, 2005, through November 4, 2005, we did not identify any other Hurricane-related referrals that should have been, but were not, sent to the FIU.

In addition, the FIU is coordinating efforts with other Governmental agencies. The FIU is serving as a technical advisor to law enforcement agencies outside the IRS. It advises the outside agencies of the requirements for tax-exempt status and whether an organization is tax exempt. Further, as a member of the FIU/Criminal Investigation Joint Task Force, the FIU received a database of 163 questionable charitable organizations from the Federal Bureau of Investigation. FIU officials informed us they have not identified any tax-exempt organizations on the database. However, they are performing further research on the organizations to determine if any are purporting to be tax exempt or soliciting funds by indicating that contributions to them are tax deductible. Once the organizations have been identified, the FIU plans to send each a letter<sup>12</sup> requesting that it substantiate its tax-exempt status by providing the IRS with a copy of its determination letter or the date on which it applied for tax-exempt status and supplying the IRS with information, including whether it plans to apply for tax-exempt status, the reason it is soliciting contributions, and any disclosures it is making on the deductibility of contributions.

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<sup>12</sup> The draft letter is in the notice review process.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to assess the adequacy of the Exempt Organizations (EO) function's efforts to ensure new tax-exempt organizations providing assistance to individuals affected by Hurricanes Katrina and Rita were properly approved and referrals of potentially abusive charitable organizations were given priority treatment. Specifically, we assessed the processing of new applications for tax-exempt status and evaluated the EO function's efforts to address potentially abusive activities by tax-exempt organizations. Due to resource limitations, we did not perform audit tests to determine the reliability of the information contained in the databases obtained from the EO function. To accomplish this objective, we:

- I. Determined previous actions taken by EO function management to address new tax-exempt organizations formed to provide assistance to victims of disasters.
  - A. Interviewed EO Rulings and Agreements function management to determine how applications for tax-exempt status have been processed for previous disaster-relief situations (e.g., the September 11, 2001, terrorist attacks and 2004 Tsunami).
  - B. Interviewed EO Examinations function management to determine actions taken to identify potentially abusive activities by charitable organizations following prior disasters.
- II. Identified publicity efforts taken by the Internal Revenue Service to inform the public about using approved tax-exempt organizations to provide assistance to individuals affected by Hurricane Katrina.
  - A. Interviewed EO Customer Education and Outreach function management to identify actions taken to inform the public about available approved organizations for Hurricane Katrina relief.
  - B. Obtained and reviewed applicable documentation showing the outreach activity taken in this area.
- III. Assessed the EO Rulings and Agreements function's review and approval process for new organizations seeking tax-exempt status to provide assistance to Hurricane victims.
  - A. Obtained and reviewed any procedures developed related to the processing of applications of new organizations seeking tax-exempt status to provide assistance to Hurricane victims.



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- B. Interviewed EO Rulings and Agreements function management to obtain information regarding how applications were processed for new organizations seeking tax-exempt status to provide assistance to Hurricane victims.
  - C. Determined whether the procedures for processing applications by new organizations seeking tax-exempt status to provide assistance to Hurricane victims were revised based upon experience with previous disaster-relief situations (identified in Step I.A.).
  - D. Determined the number of applications received for Hurricane assistance and the case status (pending, approved, denied).
  - E. Randomly selected 3 samples totaling 80 requests from a universe of 274 requests for expedited processing mailed to the Internal Revenue Service and input to the Hurricane Katrina/Rita/Wilma Inventory Report. These samples consisted of 1) expedite requests (submitted with Form 1023) from August 30, 2005, that were approved and for which the Form 1023 was closed<sup>1</sup> by the EO function on or before November 4, 2005; 2) expedite requests (submitted with Form 1023) from August 30, 2005, that were denied; and 3) both approved or denied expedite requests for Forms 1023 that had been submitted prior to September 3, 2005, but for which the organizations subsequently submitted requests for expedited processing.<sup>2</sup> We determined whether the requests were processed according to established guidelines and time periods for priority treatment and whether organizations that were granted tax-exempt status were added timely to the *Cumulative List of Organizations described in Section 170(c) of the Internal Revenue Code of 1986* (Publication 78). We used random sampling techniques to minimize time and travel costs.
- IV. Assessed the EO function's efforts to address referrals of potentially abusive activities related to Hurricane assistance by tax-exempt organizations.
- A. Interviewed EO Examinations function management to obtain information regarding how potentially abusive activities related to Hurricane relief will be identified.
  - B. Determined whether the process for identifying tax-exempt organizations committing potentially abusive activities for any type of disaster-relief effort was revised based upon experience with prior disasters (identified in Step I.B.).
  - C. Determined whether EO function management coordinated identification efforts with other Federal or State agencies.
  - D. Determined whether referrals of organizations identified as potentially engaging in abusive activities were received by EO function management.

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<sup>1</sup> The EO function made a determination regarding the tax-exempt status of the requesting organization.

<sup>2</sup> See Appendix IV for a detailed explanation of the sampling methodology.



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- E. Selected a judgmental sample of 24 referrals of 470 organizations identified as potentially engaging in abusive activities during the period August 29, 2005, through November 4, 2005, from the Information Referral Database and determined whether they were processed according to established guidelines, whether they were given priority treatment, and what action was taken. We used judgmental sampling techniques to minimize time and travel costs.





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## **Appendix II**

### *Major Contributors to This Report*

Daniel R. Devlin, Assistant Inspector General for Audit, Headquarters Operations and Exempt Organizations Programs  
Nancy Nakamura, Director  
Jeffrey M. Jones, Audit Manager  
Thomas F. Seidell, Lead Auditor  
Cheryl J. Medina, Senior Auditor  
Jeffery Smith, Senior Auditor  
Donald J. Martineau, Auditor



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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Deputy Commissioner, Tax Exempt and Government Entities Division SE:T  
Director, Exempt Organizations, Tax Exempt and Government Entities Division SE:T:EO  
Director, Exempt Organizations Examinations, Tax Exempt and Government Entities Division  
SE:T:EO:E  
Director, Exempt Organizations Rulings and Agreements, Tax Exempt and Government Entities  
Division SE:T:EO:RA  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Management Controls OS:CFO:AR:M  
Audit Liaison: Director, Communications and Liaison, Tax Exempt and Government Entities  
Division SE:T:CL



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## Appendix IV

### *Detailed Information on Case Sampling Methodology and Results*

We randomly selected 3 samples totaling 80 requests from a universe of 274 requests for expedited processing mailed to the Internal Revenue Service (IRS) and input to the Hurricane Katrina/Rita/Wilma Inventory Report during the period August 30 to November 4, 2005. Detailed information about the results of each sample is shown in Figure 1.

**Figure 1: Results From Review of Samples of Requests for Expedited Processing**

	Type of Expedite Request		
	Approved Request (Submitted With Application <sup>1</sup> )	Denied Request (Submitted With Application)	Approved or Denied Request (Application Was Previously Submitted)
<b>Universe (as of 11/04/2005)</b>	146	50	78
<b>Sample Size</b>	50	10	20
<b>Requests Reviewed</b>	50	9 <sup>2</sup>	19 <sup>3</sup>
<b>Expedite Decision Correct</b>	49 (98%)	9 (100%)	18 (95%)
<b>Tax-Exempt Status Approved</b>	50	N/A (expedite request denied – case returned to inventory)	4
<b>Exempt Organizations (EO) Function Followed Procedures to Ensure the Application Was Complete</b>	50	N/A (expedite request denied – case returned to inventory)	4
<b>EO Function Timely Notified the Public the Organization Was Tax Exempt</b>	50 <sup>4</sup>	N/A (expedite request denied – case returned to inventory)	4

Source: Treasury Inspector General for Tax Administration analysis of IRS case files.

<sup>1</sup> Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code (Form 1023).

<sup>2</sup> We did not review one case that was initially approved for expedited processing but later reclassified as a denied expedite when the Exempt Organizations function decided to limit approval for expedited processing.

<sup>3</sup> We did not review one case that was closed on merit prior to receipt of the expedite request.

<sup>4</sup> In one case, an organization's name was correctly listed in the *Cumulative List of Organizations described in Section 170(c) of the Internal Revenue Code of 1986* (Publication 78) addendum, but the city was incorrect.