



**TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION**

**DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
TE/GE: EO Examination**

Release Number: 201541013  
Release Date: 10/9/2015

Date:  
May 29, 2014  
Employer Identification Number:  
Person to Contact/ID Number:

Contact Numbers:

**CERTIFIED MAIL – RETURN RECEIPT REQUESTED**

Dear

In a determination letter dated October, 20XX, you were held to be exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code (the Code).

Based on recent information received, we have determined you have not operated in accordance with the provisions of section 501(c)(3) of the Code. Accordingly, your exemption from Federal income tax is revoked effective January 1, 20XX. This is a final adverse determination letter with regard to your status under section 501(c)(3) of the Code.

We previously provided you a report of examination explaining why we believe revocation of your exempt status is necessary. At that time, we informed you of your right to contact the Taxpayer Advocate, as well as your appeal rights.

Our adverse determination was made for the following reasons:

IRC 501(c)(3) of the Internal Revenue Code exempts from Federal income tax: corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual...

Treasury Regulation Section 1.501(c)(3)-1(c)(2) states that an organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals.

Treasury Regulation 1.501(c)(3)-1(d)(1)(ii) provides that an organization is not organized or operated exclusively for charitable purposes unless it serves a public rather than a private interest. It is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

You have not established that you are operated exclusively for exempt purposes described in section 501(c)(3) of the Code. Specifically, you have not shown that a substantial part of your activities does not serve the private interest of your officers and other individuals. Additionally, you have not demonstrated that no part of your net earnings inures to the benefit of private shareholders or individuals. Specifically, you have not shown that various payments you made have not resulted in net earnings flowing to your officers and their related businesses.

Contributions to your organization are no longer deductible under section 170 of the Internal Revenue Code. You are required to file Federal income tax returns on Form 1120. Those returns should be filed with the appropriate Service Center.

Processing of income tax returns and assessment of any taxes due will not be delayed should a petition for declaratory judgment be filed under section 7428 of the Internal Revenue Code.

If you decide to contest this determination in court, you must initiate a suit of declaratory judgment in the United States Tax Court, the United States Claims Court or the District Court of the United States for the District of Columbia before the 91<sup>st</sup> day after the date this determination was mailed to you. Contact the clerk of the appropriate court for rules for initiating suits for declaratory judgment. You may write to the Tax Court at the following address:

United States Tax Court,  
400 Second Street NW  
Washington, D.C. 20217

You also have the right to contact the office of the Taxpayer Advocate. You can call 1-877-777-4778 and ask for Taxpayer Advocate assistance. If you prefer, you may contact your local Taxpayer Advocate at:

Internal Revenue Service  
Taxpayer Advocate

Taxpayer Advocate assistance cannot be used as a substitute for established IRS procedures, formal appeals processes, etc. The Taxpayer Advocate is not able to reverse legal or technically correct tax determinations or extend the time fixed by law that you have to file a petition in the United States Tax Court. The Taxpayer Advocate, can, however, see that a tax matter, that may not have been resolved through normal channels, gets prompt and proper handling.

We will notify the appropriate State Officials of this action, as required by section 6104(c) of the Internal Revenue Code.

If you have any questions in regards to this matter please contact the person whose name and telephone number are shown in the heading of this letter.

Thank you for your cooperation.

Sincerely yours,

Mary A. Epps  
Acting Director, EO Examinations



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

DEPARTMENT OF THE TREASURY  
Internal Revenue Service

January 29, 2014

Taxpayer Identification Number:

Form:

990

Tax Year(s) Ended:

December 31, 20XX and 20XX

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

Certified Mail - Return Receipt Requested

Dear

We have enclosed a copy of our report of examination explaining why we believe revocation of your exempt status under section 501(c)(3) of the Internal Revenue Code (Code) is necessary.

If you accept our findings, take no further action. We will issue a final revocation letter.

If you do not agree with our proposed revocation, you must submit to us a written request for Appeals Office consideration within 30 days from the date of this letter to protest our decision. Your protest should include a statement of the facts, the applicable law, and arguments in support of your position.

An Appeals officer will review your case. The Appeals office is independent of the Director, EO Examinations. The Appeals Office resolves most disputes informally and promptly. The enclosed Publication 3498, *The Examination Process*, and Publication 892, *Exempt Organizations Appeal Procedures for Unagreed Issues*, explain how to appeal an Internal Revenue Service (IRS) decision. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process.

You may also request that we refer this matter for technical advice as explained in Publication 892. If we issue a determination letter to you based on technical advice, no further administrative appeal is available to you within the IRS regarding the issue that was the subject of the technical advice.

If we do not hear from you within 30 days from the date of this letter, we will process your case based on the recommendations shown in the report of examination. If you do not protest this proposed determination within 30 days from the date of this letter, the IRS will consider it to be a failure to exhaust your available administrative remedies. Section 7428(b)(2) of the Code provides, in part: "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted its administrative remedies within the Internal Revenue Service." We will then issue a final revocation letter. We will also notify the appropriate state officials of the revocation in accordance with section 6104(c) of the Code.

You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free 1-877-777-4778 and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

Taxpayer Advocate Office

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,

Nanette M. Downing  
Director, EO Examinations

Enclosures:  
Publication 892  
Publication 3498  
Report of Examination  
Form 6018

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service <b>Explanation of Items</b>	Schedule No. or Exhibit
Name of Taxpayer		Year/Periods Ending December 20XX and December 20XX

### Final Revised Report

Revised Report Note 1: The examination report for \_\_\_\_\_ was previously issued for tax period ending December 31 20XX and this report is a revision in order to incorporate the tax period ending December 31, 20XX. The report is now for the examination of tax periods ending December 31 20XX, and December 31, 20XX.

While the 20XX Form 990 was prepared by \_\_\_\_\_ and the examination based on records \_\_\_\_\_ provided to the IRS examiner, the 20XX year Form 990 was prepared by the bankruptcy trustee based on \_\_\_\_\_'s records available to the bankruptcy trustee. The intervening years of tax periods ending December 31 20XX and 20XX prepared by the organization were not examined as the records and source documents for these years are limited.

Revised Report Note 2: Non-essential attachments have been eliminated.

### Issues

1. Whether \_\_\_\_\_ (Foundation) failed to operate exclusively for exempt purposes because its net earnings inured to the benefit of its founder and president by paying for workers for the founder's privately held telemarketing business.
2. Whether \_\_\_\_\_ Foundation failed to operate exclusively for exempt purposes because it operated primarily to benefit the private interests of the founder's telemarketing business.

### I. Facts

#### Background Information

\_\_\_\_\_ is the founder of Foundation.

- o \_\_\_\_\_ is sole owner of a telemarketing business, \_\_\_\_\_ ( \_\_\_\_\_ ), that he incorporated in 19XX.
- o \_\_\_\_\_ generates profits by soliciting sales and money for clients. Expenses of a telemarketing company generally include lists (mailing

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addresses and telephone numbers), data management, telemarketer labor, phone scripts, and brochures mailed by the telemarketers.

- o is located on in an office owned and rented by
- o Foundation functioned entirely from this office until the IRS examination commenced.

created Foundation in October 20XX to raise awareness and funds for . On Foundation's IRS application for exempt status, claimed that no professional fundraiser had been considered. Once exempt status was granted, Foundation contracted exclusively with professional fundraiser, has been Foundation's only professional fundraiser since Foundation's inception (until Foundation's recent ). Foundation is entirely dependent on telemarketing receipts and has been entirely supported by revenue from Foundation.

From 20XX through 20XX, Foundation collected over \$0 million in donations relying exclusively on employees, assets, services, and location. In 20XX, the year examined, over \$0 in donations for were collected by

Telemarketing receipts for Foundation represent the majority of receipts in years 20XX and 20XX and the entirety of receipts for years 20XX through 20XX.

While the vast majority of donations collected by went to Foundation reported to the public and government that % (0/0) was spent for exempt charitable purposes under IRC 501(c). As explained below, the examination shows less than % went to health care grants. Records show % (0/0) was paid directly to 's telemarketing business, , and the remainder went to 's prior employee or to expenses that were substantially unsupported by records.

1. Application and Incorporation:

Form 1023, *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code* was filed by Foundation, by , on October 27, 20XX.

Foundation's Form 1023 states the following:

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1. Foundation is dedicated to:
  - a. Raising awareness and education of the general public about ,
  - b. Promoting and early detection of ,
  - c. Encouraging .
  - d. Providing funds to pay for for uninsured women, and
  - e. Providing funding for research.
  
2. Foundation will raise awareness and education of the general public through direct contact via mailings, telephone, and e-mail activities. The contacts will promote early detection and educational literature on how to and other will be distributed. Individuals contacted will be asked to contribute and this will be the sole funding source. Excess funds will be distributed to organizations that provide to help pay for uninsured women.
  
3. These activities will be conducted from the organization's principal offices in . While the organization will design, manage, and oversee all activities, it may contract with experts in the direct mail, email, and telephone sectors to help it achieve its goals.
  
4. The president, sole officer, director, and trustee, , is to receive \$0 annual compensation.
  
5. No members of the governing board ( ) are "disqualified persons" and none have a business or family relationship with "disqualified persons".
  
6. Foundation is not controlled by another organization and Foundation does not have a relationship with another organization because of interlocking directorates or other factors.
  
7. Foundation will not engage in reimbursement arrangements, performances of service, fundraising solicitations, or sharing of facilities, mailing lists/assets, or employees with another organization.
  
8. Expenses include printed educational materials to be utilized by Foundation .
  
9. Website address is marked "N/A"

Prior to the IRS' recognition of exempt status, the IRS required Foundation take corrective actions and provide information on its fundraising activities. Letter 1312, dated April 21, 20XX required the following:



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1. Expand the number of board members and directors from one person, \_\_\_\_\_, to at least three unrelated people.
2. Provide specific detail to explain how funds are to pay for \_\_\_\_\_.
3. Provide specific professional fundraiser detail to:
  - a. Identify the professional fundraiser that the EO intended to use,
  - b. Answer whether any board members are related to the professional fundraiser,
  - c. Disclose:
    - i. Whether any directors or officers work for the professional fundraisers that Foundation will use and the amounts of compensation or benefits the individuals would receive,
    - ii. Whether the fundraiser will receive a percentage and,
    - iii. The net received, the amount turned over for charitable activities, and the basis for the fees to the fundraiser and any contracts.

Foundation's reply letter, dated May 9, 20XX, provided the following:

1. Amended bylaws that added two persons as directors, \_\_\_\_\_, and \_\_\_\_\_, as president, remained the only officer.
2. "No director or officer is receiving any compensation for their services."
3. While Foundation has stated it may hire professional fundraisers to conduct fundraising it has not identified any potential professional fundraising firms at this time. Volunteers and board members will conduct all initial fundraising activities.
4. "Yes", Foundation will only make donations to 501(c)(3) organizations.
5. Assistance will be provided to women of age 40 or up who are uninsured to help pay for a \_\_\_\_\_ "at a location in your area."
6. Assistance will be publicized through relationships with screening facilities, website to be created, media (radio, newspaper, etc.) and in cooperation with other 501(c)(3) organizations that provide support to \_\_\_\_\_ victims
7. Records will be maintained to show the assistance given, circumstances surrounding the need for assistance, names of recipients, and any relationship of the recipients.

October 20, 20XX Foundation filed Articles of Incorporation, with the \_\_\_\_\_ that show the following:

1. No part of net earnings will inure to the benefit, or be distributable to, its trustee officers, or other private person, except for distributions in furtherance of its purpose.
2. It's purpose is education, prevention \_\_\_\_\_, and funding of research ("distributions to organizations that qualify as exempt under §501(c)(3)").

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3. The board of directors consisted of " " of
4. Upon dissolution, assets, after payment of liabilities, shall be distributed for exempt purposes within the meaning of the Internal Revenue Code or to state or local government.
5. The date of incorporation is October 20, 20XX. of  
signed as the incorporator and is the sole person under the Board of Directors.
6. A May 9, 20XX amendment adds and as board members.

May 22, 20XX, the IRS issued letter 1045 recognizing Foundation as exempt under Federal income tax under section 501(c)(3) of the Code and to be treated as a public charity under an advanced ruling period.

August 29, 20XX, Foundation's initial ( ) application states:

- o Activities as "
- o Email:
- o Address:
- o Expenditure Authority, Director and "No other officers at this time".
- o Fundraising through: "Telemarketing" and "Direct mail" are checked
- o signature is dated July 15, 20XX.

2. Related Entities:

Foundation's Current Board Members:

20XX to 20XX  
20XX to 20XX  
20XX to 20XX  
20XX to 20XX

Foundation's Past Members:

20XX - October 20XX  
20XX - 20XX

October 4, 20XX, volunteered to step down as executive director but elected to continue to support the mission as a volunteer.

December 20XX, interviewed for a part time position as Executive Director.

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\_\_\_\_\_ was added as an officer for Foundation, after IRS required that, for exempt status, someone, besides only \_\_\_\_\_, needed to be an officer and director.

- o \_\_\_\_\_ was president of, a printing and mailing, and marketing consultant company.
- o \_\_\_\_\_ was located in \_\_\_\_\_.
- o \_\_\_\_\_ advertised that he was a marketing consultant and could use a donor's gift history to ask for a greater gift. His website stated, " \_\_\_\_ ". (See 20XX)
- o \_\_\_\_\_ designed Foundation's website October 27, 20XX.

\_\_\_\_\_ was added as an officer at the same time.

- o \_\_\_\_\_ is a " \_\_\_\_\_ " and works in the professional fundraising business.

Corporation:

\_\_\_\_\_ was incorporated April, 16, 19XX as ( \_\_\_\_\_ ) at \_\_\_\_\_ before relocating to \_\_\_\_\_ as \_\_\_\_\_.

Based on reports \_\_\_\_\_ filed with the \_\_\_\_\_ office, other \_\_\_\_\_ charity clients include:

1. \_\_\_\_\_ : Out of over \$0 million of donations collected over five years, less than % went to charitable programs, and nearly all of the money was used to pay fundraiser fees, salaries, and benefits packages. Donors were falsely told their money would be used to fund \_\_\_\_\_ research and \_\_\_\_\_ screenings through a mobile van. \_\_\_\_\_ was also accused of advertising bogus ties with the \_\_\_\_\_ was shut down by \_\_\_\_\_ State.
2. \_\_\_\_\_ Foundation was incorporated August 6, 20XX, at \_\_\_\_\_ home address on \_\_\_\_\_ ( \_\_\_\_\_ wife), is President, ( \_\_\_\_\_ manager) is Secretary, and ( \_\_\_\_\_ employee), is Treasurer.
3. While \_\_\_\_\_ listed \_\_\_\_\_ as a client, \_\_\_\_\_ noted for 20XX that they "have not yet finalized their schedule with \_\_\_\_\_, nor have they signed contracts. However, no contract was subsequently registered with the state.

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website, telemarketing.net stated in part:-

- Services include consulting, direct mail, fax & email campaigns, and predictive dialing.
- Call Center applications include: Appointment setting, Lead qualification, Product and Technical support, Customer satisfaction surveys, Customer service, Marketing research, Surveys, Statistical analysis Polling, Get-out-the-vote, Direct Sales, and Fundraising.
- The most important factor in the success of a direct marketing program is the list. In fact, the list accounts for % of a campaign's success, while the offer (%), the message (%) and the format (%) make up the rest.
- services can:
  - Ramp sales quickly with a proven sales process.
  - Any "output" from our TSRs must be verified by a supervisor and our auditing department before you ever see the results.
  - All of our conversations are monitored or recorded for training and verification purposes.

4. Foundation's Contracts for Services:

Two Versions of Contract:

Contract One.

October 17, 20XX the ( ) office received a "Fundraising Service Contract Registration" from Telemarketing Corporation. The types of services are managing or conducting direct mail and telephone solicitations. and registration signatures are dated September 15, 20XX. The one-page contract attached to the registration is the contract released to the public until 20XX.

On this contract:

- Foundation will have reasonable access to financial records and operations regarding the solicitations. The terms are open ended.
- telemarketing services are to begin October 1, 20XX,
- There is a single cost:
  - "Telemarketing: \$0 per hour."

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- signed as signed the contract as owner and president, and Foundation Director.

**Contract Two.**

In year 20XX, the office received a complaint that Foundation was not adhering to the 20XX contract (Contract 1). The directed Foundation to cease collections through until the contract issue was resolved.

December 30, 20XX, in response to letter, Foundation sent a different (six-page) contract with

On this version, and signed as Foundation board members. This contract is dated September 8, 20XX.

Contract Two states, in part:

- Each contact may include an incidental request for financial support. These contacts will be to households that include women within the target group. will require telephone representatives to adhere closely to approved scripts.
- will be responsible for all costs of the marketing effort.
- will invoice Foundation of all costs but total costs cannot exceed 80 percent of the gross proceeds actually received, less credits for stop payment checks and refunds.
- Foundation will receive no less than percent of the gross proceeds, after stop payment checks.
- All proceeds shall be directed to a representative of Foundation and deposited into a bank account in the name of Foundation.
- A representative of will "make all arrangements necessary to pay [ ] its portion of collections cleared in the account monthly and deposit."
- will pay, from its share of the proceeds, all proper and bona fide expenses of the campaign.
- will cooperate fully with Foundation to review or audit the terms and conditions set forth in this agreement. This shall be a material condition. Foundation will have reasonable access to 's financial records relative to its fundraising activities on behalf of Foundation.
- Persons on the contact list, who respond positively to contact, will remain property of both and Foundation.

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- The terms of the contract are 0 years with an automatic renewal, barring either parties' cancelation.

Selection of \_\_\_\_\_ and Lack of Due Diligence Documentation:

Beginning on Foundation's first 20XX Form 990, Foundation has consistently claimed:

- \_\_\_\_\_ was chosen in a competitive bidding process, and
  - Contract terms are no more than fair market value.
- The examiner requested all documentation of comparison and selection to support these claims. (IDR #2)
    - Foundation had no documents related to \_\_\_\_\_ or market rates.
    - Foundation had not relied on expert reports or any outside data.
    - Foundation stated that, to their recollection, no other \_\_\_\_\_ would agree to their terms.
    - Officer \_\_\_\_\_ stated she had no records or notes of the selection of \_\_\_\_\_. She believed Foundation entered into contract with \_\_\_\_\_ in good faith and the telemarketing contract was within the "industry standards" for with charitable organizations. However, \_\_\_\_\_ stated, "As a \_\_\_\_\_, I have long believed in the necessity to acquaint the public with the benefits of taking action and \_\_\_\_\_." She believes herself to be ethical and of high integrity and is a multi-year member of a Rotary Club", and, she has spent over \_\_\_\_\_ years of her working career in fundraising for charities and believes "it costs money to raise money". (IDR #4)
    - And, after \_\_\_\_\_ initial selection, any subsequent requests for bids or offers of services from other telemarketers were issued, reviewed, and responded to by \_\_\_\_\_. Afterward, \_\_\_\_\_ reported back to the board of his findings.
  - The examiner requested a detailed explanation of what made up their "extensive call-to-action campaign" to provide assistance to women who are uninsured to get a \_\_\_\_\_
  - Foundation's reply:
    - It is to get women to understand the importance of \_\_\_\_\_ and \_\_\_\_\_ recommend that they receive annual \_\_\_\_\_

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- The examiner requested an explanation of what specific "expertise" had to be sole manager of their "extensive call-to action campaign" to prevent
- Foundation's reply:
  - had the expertise to conduct this extensive call to action campaign because " is a professional fundraising firm."
- The examiner asked for the basis of their persistent public claim that is only "part owner" of
- Foundation's reply:
  - Foundation has no reason to know whether this is correct because was a separate company from Foundation and ownership information is confidential. Also, Foundation does not know who, other than would be receiving profits from because they "do not know their financial status or policies".
- Notes:
  - The public 990 forms claiming was only a part owner are all signed by
  - IRS and records show has always been sole owner of S-Corporation and receives % of net profit distributions.

Working Relationship of and Foundation:

Foundation's physical location was at office at , with post office boxes in the states of , , and .

Foundation operated entirely from office until after IRS's examination commenced. explained to the examiner (April 26, 20XX telephone contact) that the IRS examination could not be conducted at office because Foundation no longer functioned from office and they were in the process of seeking a new location. ( stated the attorney general's (AG's) office requested data from Foundation November of 20XX. She stated a had been stirring up trouble for Foundation and she assumed the IRS had also received a complaint from .) During the exam, a new location was found but was vacated months later when Foundation filed for bankruptcy.

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The office is owned by \_\_\_\_\_ and rented to \_\_\_\_\_ from \_\_\_\_\_ Properties. The rent value was donated to Foundation by \_\_\_\_\_ and \_\_\_\_\_

Foundation shows that it owns no assets other than cash. The cash is in bank accounts under \_\_\_\_\_ and Foundation's names. Foundation had no employees until 20XX and all collections, deposits, transfers to \_\_\_\_\_, and accounting were performed by \_\_\_\_\_ employees. Foundation's donations for years 20XX through 20XX exceeded \$0.

\_\_\_\_\_ received and processed all donations. \_\_\_\_\_ deposited the funds into a bank account ( \_\_\_\_\_ #0), then \_\_\_\_\_ transferred its share to another account leaving Foundation with the remainder.

On Foundation's \_\_\_\_\_ registration/renewal form for year 20XX, \_\_\_\_\_ and \_\_\_\_\_ also have authority to expend funds and incur obligations on behalf of Foundation, and \_\_\_\_\_ is the contact for \_\_\_\_\_. All Foundation checks are signed by \_\_\_\_\_.

\_\_\_\_\_ employs telemarketers directly and hires temporary telemarketers from an employment agency.

Through the work of the telemarketers, Foundation:

- Provided free \_\_\_\_\_ through their telemarketing mailing.
- For women who wanted a \_\_\_\_\_, telemarketers gave the women a phone number listed on the State Department of Health website (the State provides phone numbers to locations with free and low cost \_\_\_\_\_). The women would then call this number for assistance in setting up an appointment for \_\_\_\_\_ (Note: No records were kept to support who or how many women were given the telephone number.)



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and Foundation Revenue Compared:

and Foundation reported receipts and expenses as shown below:

Tax Year:	20XX	20XX	20XX	20XX	20XX	20XX	20XX
1	Foundation Donation Receipts (per Forms 990)	0	0	0	0	0	0
2	Paid to (per Forms 990)	0	0	0	0	0	0
3	% Donations Paid to						
4	Net Retained by Foundation	0	0	0	0	0	0
5	Foundation Direct Charitable Services (Per )	0	0	0	0	0	0
7	% Used for Charitable Services (line 5 divided by line 1)						
8	Grants Paid by Foundation: (per Forms 990)	0	0	0	0	0	0
9	Donations to Grant % (line 8 divided by line 1)						
10	Gross Donations (Per )	0	0	0	0	0	0
11	Retained by Charities:	0					
12	% of Gross from Foundation (line 1 divided by line 10)						
13	Clients (per ):						
14							
15							
16							

Discrepancies in Amounts Reported:

For most of the years that Foundation was only client, gross receipts (line 10) are more than Foundation's reported receipts (line 1). The excess in receipts (line 10 less line 1) not reported as Foundation's are \$0 (year 20XX),

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\$0 (year 20XX), \$0 (year 20XX) and \$0 (year 20XX). The year prior to 20XX were not examined by IRS and the actual recipient or owner of these amounts is unresolved.

Foundation reported amounts paid directly to charitable services (lines 5 ) far above the amounts of grants that they paid out (line 8). This is partly explained by Foundation's improper practice of allocating a substantial percentage of fundraising costs to direct charitable services. (See , later.)

For example, in year 20XX, Foundation reported that % of donation revenue (0/0) was spent directly on charitable services, while actually, received % of donation revenue (0/0) and zero grants were given.

For the same year, 20XX, total receipts of \$0 include \$0 of Foundation receipts. reports \$0 of \$0 was retained by its charity clients. Yet, Foundation retained only \$0 of the \$0 collected by

If \$0 of \$0 of receipts was retained by charities, would receive only \$0, yet Foundation alone paid them \$0.

Communications: False Claims on Script and Joint Costs:

June 20XX the issued a letter challenging Foundation's % allocation of joint fundraising costs to program services costs. The instructed Foundation to follow the coded allocation rules in and . rejected over million of reported program service expenses because the expenses were actually classified as fundraising expenses per code. The asked Foundation to amend its Forms 990.

responded with several emails containing various protests, questions, and explanations (including complaints that the directions of allocations were too complicated, and amendment of the Form 990 would cost a lot of money).

provided a copy of a "20XX" telemarketer script. This script states that Foundation pays for for uninsured women, cost about \$0, and "We are asking folks if they can help women at \$0?".

By July 20XX, the advised that the first line of their telemarketer script still needed to identify the caller as telemarketers and not as a caller from the charity. Further, the script falsely states that Foundation pays for where they actually make donations to health programs which do this. By August 2, 20XX, the was still requesting corrections to false statements and advised

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and Foundation that Foundation's script still contained the claim that the telemarketer is "with the \_\_\_\_\_".

Other:

November 11, 20XX, News reported its attempts to interview \_\_\_\_\_ to inquire about a conflict of interest between Foundation and \_\_\_\_\_. Insiders with the telemarketer told the news reporter that they typically start off by asking for a donation of \$0. They tell prospective donors that \$0 would help two women, and that they believe the money is for just one thing: "for women to get \_\_\_\_\_" and \_\_\_\_\_ and Foundation share the same post office box and storefront. And Foundation has been \_\_\_\_\_ only nonprofit client since 20XX. The relationship has made millions. According to the charity's IRS filings, since 20XX, Foundation has paid out almost \$0 for for uninsured women. But over that same period, the charity, through telemarketing, raised nearly \$0. After expenses, the charity has paid \_\_\_\_\_ nearly \$0. An individual ( \_\_\_\_\_ ) who was asked for a donation said the \_\_\_\_\_ telemarketer was clear about where his donation would go: "During the phone call, they assured me all the money would go to pay for \_\_\_\_\_." That's what two \_\_\_\_\_ employees, one past and one current, confirm they were told to say. One woman, who asked to remain anonymous, told the \_\_\_\_\_ she was told to say "that we're raising money so that uninsured women can receive \_\_\_\_\_."

Foundation's First Year:

October 27, 20XX, \_\_\_\_\_ website was created. The "admin" and "owner phone" is 000-000-0000. The address, \_\_\_\_\_, (Per " \_\_\_\_\_ ")

The telephone number listed, 000-000-0000, belongs to \_\_\_\_\_ located at \_\_\_\_\_

Foundation's initial website (through year 20XX) stated:

The \_\_\_\_\_ Foundation was founded in 20XX by \_\_\_\_\_ in response to the need for affordable \_\_\_\_\_ for uninsured women in \_\_\_\_\_. When several of \_\_\_\_\_ former employees were diagnosed with \_\_\_\_\_, he educated himself about the disease, learning that \_\_\_\_\_ has the highest rate of \_\_\_\_\_ in the country. His concern about the health of his employees, coupled with his impending retirement, led him to explore what he could do to help women - particularly those with no health insurance.

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During 20XX the outreach effort of the Foundation reached 0 women and referred many to their local health clinics for Foundation distributed 0.

Foundation's 20XX, financial activities:

Income:	\$0	
Expenses:	\$0	
Grants or Assistance:		00
Balance carried forward:	\$ 0	

Recent Website (accessed January 11, 20XX) posts statistical information (rates of diagnoses and death from cancer). Several sections and automatic functions of the website solicited donations .

The Department of Health's telephone numbers for free , (provided by the telemarketers) was not posted for the public on Foundation's website. Instead, a link for " " led to a form for personal information and a claim that "may be able to pay the total cost or help supplement the cost of at a location in your area".

Notes:

The examination findings show that Foundation has not and does not pay for . Instead, a portion of the net profit, in most years, was given to a health organization and some portion of that may be used for

Also, while and Foundation claimed to the examiner that they did not have data on who or how many women were contacted or referred by website form collected a great deal of specific and personal data of the person who wanted

Form 990 for Year 20XX:

The examiner issued IDR #1, April 18, 20XX, requested all books and records, including an unaltered copy of Foundation's accounting software (Quickbooks), and all documents received from and contracts with . Foundation's representative did not provide the Quickbook records because it contained data outside of the examination year.

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To prove the millions in expenses paid to \_\_\_\_\_, Foundation could only provide the monthly invoices created by its founder's company.

The examiner made several attempts to secure documentation to support the expenses. The examiner referenced Foundation's contract's condition that Foundation will have reasonable access to \_\_\_\_\_ financial records relative to its fundraising activities on behalf of Foundation and asked Foundation if it had ever requested any information from \_\_\_\_\_.

Foundation responded that they had never had a reason to question charges.

Financial Audit Results:

The results of the IRS audit of the Form 990 for the tax period ending December 31, 20XX follow:

Revenue:

	20XX 990 REVENUES		
	Per 990	Per Audit	Difference
<b>Gross Contributions Collected:</b>	0		
( Donations)		0	
(Grant Income)		0	
<b>Total Contributions Collected</b>	0	0	0
<b>Investment Income :</b>	0	0	0
<b>Other revenue: Recovered Income: Grant Deducted in Prior Year and Returned to Foundation in 20XX Year:</b>	0.00	0	0
<b>TOTAL REVENUE</b>	0	0	0

- The gross income on Form 990 was underreported by \$0.
  - Form 990 reported \$0 as gross collected.
  - The bank deposits, of donation/grant income, total \$0.
  - Foundation's accounting records show fundraising income of \$0 before NSF deductions of \$0
  - Foundation accounting records show \$0 of interest income and Foundation's Form 990 only \$0. The actual interest income, reported by the bank, totals \$0.

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While the contract did not address it, and the finances did not account for it, requested donors add Shipping Income. The telemarketers' donation form requests that donors add \$0 to each donation to "defray shipping costs". made no record of these receipts to nor did reduce for any shipping cost to the \$0 of shipping charged to Foundation as shown on the monthly invoices. Neither of the contracts, and none of Foundation's documents address the approval or treatment of this shipping income solicited by on behalf of Foundation.