

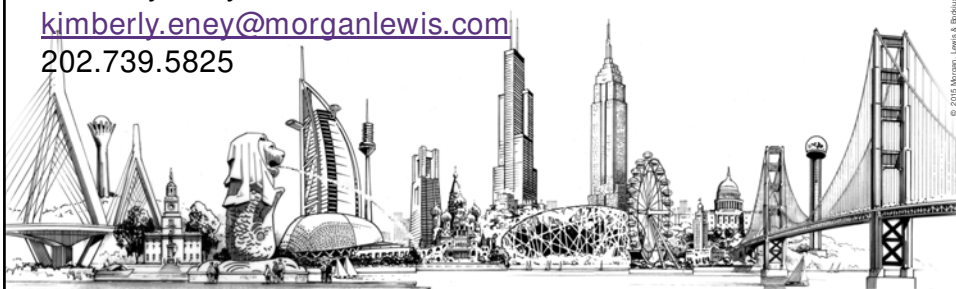
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# ANATOMY OF AN IRS AUDIT: PRIVATE FOUNDATIONS

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## IRS Enforcement in the EO Sector

- IRS processed 787,339 returns in calendar year 2014
- IRS examined 6,392 tax-exempt organization and related returns in fiscal year 2015
  - Only 119 returns attributable to Forms 990-PF, 1041-A, 1120-POL, 5227
- IRS Office of EO Examinations
  - EO Examinations Programs and Review
  - Compliance Strategies and Critical Initiatives
  - EO Compliance Area
  - Financial Investigations Unit

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## IRS Enforcement in the EO Sector (cont'd)

- The IRS conducts two types of audits
  - Office/correspondence audit: IRS requests delivery of documents by mail
  - Field audit: IRS agent visits the foundation's premises
- IRS compliance checks
- Compliance check questionnaires

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## IRS Selection of Organizations to Audit

- Information on a 990-T or 990-PF appears to be inconsistent or incomplete
- IRS receives a referral about potential noncompliance
- EO Division participates in an IRS-wide examination initiative, such as initiatives generated by the National Research Program
- A return is related to a return of another taxpayer that involves issues or transactions
- A document matching program identifies a discrepancy between information reported by a payor and payee (e.g., Forms 1099 or W-2)
- A claim for refund or request for abatement requires further review

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## IRS Selection of Organizations to Audit (cont'd)

- Five Examination Field Areas
  - Exemption
  - Protection of Assets (including self-dealing)
  - Tax Gap (including employment tax and UBIT liability)
  - International (including oversight on funds spent outside the U.S. and FBAR requirements)
  - Emerging issues
- IRS Work Plan
  - Guidance under Section 4941 regarding private foundation's investment in a partnership in which disqualified persons are also partners
  - Update to Revenue Procedure 92-94 on Sections 4942 and 4945
  - Guidance regarding the excise taxes on donor-advised funds and fund management

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## Examination Stage – Commencement

- Initial phone call and letter from the examining agent
- Initial document request list typically includes:
  - All organizational documents such as articles of incorporation, bylaws, and resolutions of the board;
  - Minutes of board meetings for the last several years;
  - A list of directors and any transactions between the organization and directors;
  - The application for exemption and any subsequent IRS correspondence;
  - Financial statements;
  - Publications of the organization;
  - Correspondence files;
  - Financial and management reports;
  - Accounting manual and a chart of accounts;

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2017 Nonprofit Organizations Compliance and Internal Review Workshop session  
"Anatomy of an IRS Audit for Private Foundations"