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## United States Senate

COMMITTEE ON  
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS  
WASHINGTON, DC 20510-6250

RICHARD J. KESSLER, STAFF DIRECTOR  
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July 9, 2013

The Honorable Gene L. Dodaro  
Comptroller General of the United States  
Government Accountability Office  
441 G St NW  
Washington, DC. 20548

Dear Director Dodaro,

From Habitat for Humanity to the Make-A-Wish Foundation, charitable organizations across the country are dedicated to improving the lives of millions of Americans. Often at great personal sacrifice, individuals work tirelessly for or provide donations to these entities directing personal generosity toward those in need.

There are more than 1.6 million tax-exempt organizations in the United States, nearly one million of which are public 501(c)(3) charitable organizations. This number continues to grow, as a recent Department of Treasury Inspector General (TIGTA) report revealed the Internal Revenue Service (IRS) receives more than 60,000 applications for charitable status every year.

Several recent studies examining the significant scope of organizations classified as a 501(c)(3) charitable entities have brought to light certain findings of great concern regarding the IRS' ability to appropriately monitor these groups. For example, an April 2013 ESPN investigation of charities run by high-profile athletes found "74 percent of the nonprofits fell short of one or more acceptable nonprofit operating standards."<sup>1</sup> ESPN's work showed several athlete charitable groups stopped filing tax returns completely, while others provided misinformation on their IRS filings. In response, I asked the IRS to thoroughly review ESPN's findings, as well as provide extensive data and analysis regarding tax exempt charitable organizations more broadly, including any specific challenges they may face in overseeing charitable organizations.<sup>2</sup> The IRS has not provided a response to this inquiry, which is enclosed.

Providing a tax-exempt structure to organizations truly operating as nonprofits encourages generosity and strengthens their ability to serve our society in a way often government cannot. The special tax treatment of these organizations is intended to benefit those in need, not the well-off in need of a tax haven. Further, it is highly unethical for a nonprofit entity to use charitable donations to funnel money to their own for-profit operations, using taxpayer generosity to line their own pockets.

1 [http://espn.go.com/espn/otl/story/\\_/id/9109024/top-athletes-charities-often-measure-charity-experts-say-efficient-effective-use-money](http://espn.go.com/espn/otl/story/_/id/9109024/top-athletes-charities-often-measure-charity-experts-say-efficient-effective-use-money)  
2 [http://www.coburn.senate.gov/public/index.cfm?a=Files.Serve&File\\_id=c4d87da9-978d-4d49-9551-994d1834ced3](http://www.coburn.senate.gov/public/index.cfm?a=Files.Serve&File_id=c4d87da9-978d-4d49-9551-994d1834ced3)

More recently, a special joint report<sup>3</sup> released by the Tampa Bay Times and The Center for Investigative Reporting exposed even more dubious findings of the activities and financial structures of dozens of charitable organizations. After analyzing ten years of financial statements, their report ranked the country's 50 worst charities, defined as those organizations that diverted the most money from charitable donations to private fundraising companies instead of to the charitable activities advertised to donors.

Among their findings, "Collectively the 50 worst charities raised more than \$1.3 billion over the past decade and paid nearly \$1 billion of that directly to the companies that raise their donations. If that money had gone to charity, it would have been enough to build 20,000 Habitat for Humanity homes, buy 7 million wheelchairs or pay for mammograms for nearly 10 million uninsured women." In other tragic examples of severe abuse, the investigation explains, "Even as they plead for financial support, operators at many of the 50 worst charities have lied to donors about where their money goes, taken multiple salaries, secretly paid themselves consulting fees or arranged fundraising contracts with friends. One cancer charity paid a company owned by the president's son nearly \$18 million over eight years to solicit funds."

The joint investigation also took a detailed look at the regulatory structure in place to monitor inappropriate fundraising activities, such as lying to donors or embezzlement. They found "More than 35 charities and their hired solicitors have been caught breaking the rules multiple times but continue to take money from donors. The most frequent violators have been cited five times or more. One solicitor has been cited 31 times and is still in business."<sup>4</sup> Taxpayers should not be asked to provide a special tax-exempt status to charitable organizations that have a long history of documented inappropriate behavior. Yet, it is unclear if the IRS is revoking the 501(c)(3) status of these organizations.

Clearly the IRS is failing to ensure charitable groups fully comply with the law, or even meet the minimum standards for receiving such preferential tax status. This is not only unfair to taxpayers, but is resulting in misdirected federal subsidies that could instead be used to better the lives of millions through hundreds of exemplary and generous charitable organizations.

I write today to request a full review of the Internal Revenue Service's ability to oversee and manage the ever-expanding pool of charitable organizations. Please include the following considerations as part of your assessment.

1. Describe what the IRS knows about the number, type, size and other characteristics of tax-exempt organizations. Please describe the growth in the number of tax exempt organizations, as well as 501(c)(3)s specifically, over the last decade, by year if possible. Please provide the number of tax exempt organizations who had their tax-exempt status automatically revoked in 2010 for not filing an annual information return for three years

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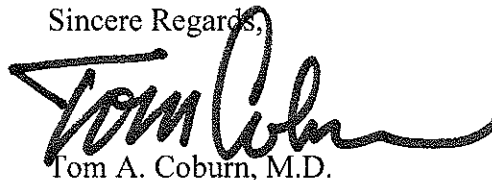
<sup>3</sup> <http://www.tampabay.com/topics/specials/worst-charities1.page>

<sup>4</sup> <http://cironline.org/reports/part-2-failure-regulation-4604>

2. Assess the IRS's efforts to ensure compliance with the tax laws by these organizations, especially 501(c)(3) organizations. Include in your analysis how IRS selects the Forms 990s filed by 501(c)(3) organizations for examination.
3. Describe what the IRS knows about the extent to which 501(c)(3) organizations are meeting their intended charitable purposes, including to what extent the IRS follows up on outside investigations and findings of questionable charitable activities, and how often the IRS revokes existing 501(c)(3) status of organizations failing to meet minimum requirements of their charitable purposes (to exclude those who lost their status automatically because of failing to file for three years).
4. Please also include details regarding any IRS protocol or actions taken when an organization has had state disciplinary actions filed against it. In addition, for each of the last five years, how many charitable organizations, as well as total number of tax-exempt organizations, have had their tax-exempt status revoked by the IRS, but not as part of the automatic revocation for not filing a return for three years. Please also provide insight into if and how IRS responds and addresses charities with tax-exempt status that move from state to state, after receiving disciplinary actions by state regulators, and if the IRS revokes the preferential tax status of these groups.
5. Further, please describe the revocations that resulted from state disciplinary actions and other known violations of the law, including the top ten worst charities as outlined by the Tampa Bay Times and Center for Investigative Reporting investigation.
6. Describe any concerns or challenges the IRS has encountered with US Attorneys' offices in prosecuting tax exempt charitable organizations.

The IRS should be held accountable to ensure the public charitable tax structure is not abused by the wealthy as a tax shelter, and instead is available to the organizations that truly deserve this status. Thank you for your commitment to assisting Congress in its oversight and I appreciate your attention to this request. Please contact Joelle Cannon on my staff with any questions.

Sincere Regards,



Tom A. Coburn, M.D.

United States Senate

Ranking Member

Committee on Homeland Security & Governmental Affairs

Cc: Treasury Inspector General for Tax Administration Russell George

# United States Senate

Senator Tom Coburn, MD

April 16, 2013

Mr. Steven T. Miller  
Internal Revenue Service  
Acting Commissioner

Mr. Richard Weber  
Internal Revenue Service  
Chief, Criminal Investigation

Internal Revenue Service  
1111 Constitution Ave NW  
Washington, DC 20224

Dear Acting Commissioner Miller and Mr. Weber,

On March 31, 2013, the ESPN investigative unit "Outside the Lines," released the findings of an in-depth look into 115 charitable organizations founded by prominent athletes. In a long exposé,<sup>1</sup> ESPN provides extensive details of the investigation, which revealed "74 percent of the nonprofits fell short of one or more acceptable nonprofit operating standards."

I am writing today to ask for an official review of this matter, including an audit of a sample of the charities similar to those included in the ESPN report. During a time of fiscal scrutiny and budgetary shortfalls, Congress and the administration should work together to ensure tax benefits intended for charity are not abused as tax havens for the well-to-do.

Many of ESPN's findings raise cause for concern regarding the tax filings of these particular entities. For example, several charitable organizations stopped filing tax returns altogether, while others provided misinformation on their IRS filings. In one instance, a phone number provided to the IRS by professional football player Randy Moss' charities "...rings to a private residence in Manitoba, where a woman who answered the phone said, over dogs barking in the background, that she's never heard of Randy Moss." In yet another case, the IRS eventually revoked the tax-exempt status of famous Yankees player Alex Rodriguez's two charities, which had failed to file a tax return since 2006.

<sup>1</sup> Outside the Lines, ESPN.com, "Athlete charities often lack standards," [http://espn.go.com/espn/otl/story/\\_/id/9109024/top-athletes-charities-often-measure-charity-experts-say-efficient-effective-use-money](http://espn.go.com/espn/otl/story/_/id/9109024/top-athletes-charities-often-measure-charity-experts-say-efficient-effective-use-money).

In some examples, "Outside the Lines" work found some athlete "charities" had given very little grant money or charitable assistance or had very little cash on hand with which to provide assistance to those they promised.

There is an appearance that some star athletes are using the organizations not only as tax havens, but as a way to pay for lavish spending habits and entertainment activities—all while receiving special tax-exempt status from the federal government.

Los Angeles Lakers basketball star Lamar Odom's cancer research charity has failed to provide "a dime in grant money to any cancer entity in its eight-year history," ESPN explains, "But eight years of tax records reveal that Cathy's Kids never gave any grant money to cancer-related causes and that the charity primarily existed to finance two elite youth basketball travel teams. Of the \$2.2 million raised by the charity, at least 60 percent -- \$1.3 million -- went to those AAU teams."

Athletic superstars are not the only ones taking advantage of the tax-exempt status preferences in the tax code, resulting in millions of dollars in lost revenue each year. Many professional sports leagues, such as the National Hockey League, the PGA tour, and the NFL, which are clearly organized for profit to promote their specific brands, receive tax-exempt status from the IRS. Collectively with their subsidiaries, the NFL, NHL, PGA tour, and LPGA generate an estimated \$13 billion in annual revenue. The tax-exempt offices of these leagues earned \$184.3 million, \$89.1 million, \$1.4 billion, and \$73.6 million in 2010, respectively. Allowing these organizations to continue as tax-exempt agencies forces taxpayers to subsidize the operations of the multibillion sports industry that is wildly successful on its own.

While middle class families are struggling to make ends meet and pay their share of taxes, it is outrageous well-to-do superstars are evading paying taxes by harboring income in fake charities that benefit few others than the stars themselves. I would ask for your response to several questions to help me gain a better understanding on how the IRS oversees these charitable organizations and other nonprofits. In addition to a full review of the organizations findings and a sample audit as mentioned previously, please provide responses to the following questions:

- 1) How many tax exempt charitable organizations currently exist? How many existed ten years ago?
- 2) How many tax exempt charitable organizations are currently delinquent on filing at least one or more tax form?
- 3) In each of the five past years, beginning in 2008, how many charitable organizations have had their tax-exempt status revoked by the IRS.
- 4) What actions have the IRS taken since the "Outside the Lines" report was released in late March, to examine the allegations?
- 5) Has the IRS received allegations of problems at any charitable organizations founded by prominent athletes? If so, please explain what actions were taken by the IRS?
- 6) What challenges does the IRS face overseeing tax exempt charitable organizations?

- 7) How many criminal investigations of tax exempt charitable organizations has the IRS conducted since 2010?
- 8) Has the IRS had problems with U.S. Attorneys' offices in prosecuting tax exempt charitable organizations?

I look forward to your response and appreciate your efforts on this important matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Coburn", with a long horizontal stroke extending to the right.

Tom A. Coburn, M.D.

United States Senate

cc: Treasury Inspector General, Russell George

Treasury Secretary Jacob Lew