

Internal Revenue Service  
**memorandum**

INV 1-13

date: MAR 9 1977

to: Acting General Counsel

from: Acting Commissioner of Internal Revenue

*W. J. Williams*

subject: Corporate Slush Funds - Illegal Foreign Payments

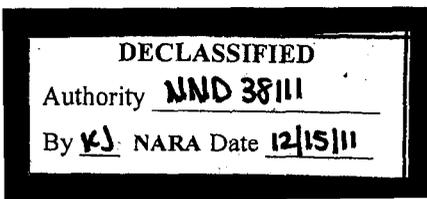
This is in reply to your verbal request of March 1, 1977 for a brief paper on our large case examination program relating to corporate slush funds.

Attached is a concise summary of our large case program, including statistics resulting from a questionnaire used to supplement our audit program in this area.

We will be pleased to furnish additional data for the Secretary's appearance before the Senator Proxmire Committee on March 16, 1977 if necessary.

Attachments

Russ  
IF you need more, don't  
hesitate to call Singleton Wolfe -  
OR I'll call him.  
*[Signature]*



### Corporate Slush Funds

Investigations of some major corporations by IRS and other enforcement agencies have disclosed intricate corporate schemes, outside normal internal audit controls, designed to generate large amounts of cash for illegal or improper use, and to reduce taxable income unlawfully. To assist in detecting such schemes, existing audit techniques were supplemented with a questionnaire procedure. This procedure is being used in every large case examination (i.e., those corporations with gross assets exceeding \$250 million and financial institutions and utilities if their gross assets exceed \$1 billion). Also, this procedure may be used in other corporate examinations if the facts and circumstances warrant.

The questionnaire procedure consists of asking eleven specific questions of selected corporate officials and the managing partner of the corporation's independent accounting firm. The responses to these questions are to be given in affidavit form. Corporate officers are generally complying with the questionnaire procedures. However, considerable resistance initially surfaced from independent accountants, so the Service modified this requirement along the lines which were suggested by the American Institute of Certified Public Accountants. The modified procedure allows the independent accountant the option of answering the eleven questions or attesting to the accuracy of the responses submitted by selected corporate officials. The Service believes that this was a reasonable compromise. While some resistance still exists from

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some of the national accounting firms concerning the accountant's attestation, the major problems with this new procedure are being resolved.

As of December 31, 1976, the eleven questions had been asked in approximately 800 large case examinations. Indications of slush funds or illegal activity have been found in over 270 large cases. Most of these cases are still under active consideration and over 50 joint investigations (criminal investigations) have been started.