



*The Internal Revenue Service Complied With
New Approval Requirements for Jeopardy
Assessments*

June 2006

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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 15, 2006

**MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT**

FROM: *Michael R. Phillips*
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Internal Revenue Service Complied With
New Approval Requirements for Jeopardy Assessments
(Audit # 200530027)

This report presents the results of our review of the Internal Revenue Service's (IRS) compliance with jeopardy assessment procedures. The overall objective of this review was to determine whether the IRS effectively implemented Provision 3434 of the IRS Restructuring and Reform Act of 1998 (RRA 98),¹ which requires the IRS Office of Chief Counsel to approve all jeopardy assessments. Proper implementation of this Provision is important because failure on the part of the IRS to follow the new requirements can invalidate a tax assessment.

Synopsis

The RRA 98 made significant structural changes in the management and oversight of the IRS and enhanced the rights and protections applicable to taxpayers. Provision 3434 of this Act provides a protection for taxpayers subject to audit or collection activities. This Provision prohibits jeopardy assessments unless the IRS Chief Counsel or delegate personally approves them in writing. Jeopardy assessments are immediate assessments made without delay in circumstances in which collection of a tax would be endangered if normal procedures were followed. In passing this law, Congress believed it was appropriate to require the Office of Chief Counsel to review and approve jeopardy assessments because they often involve difficult legal issues.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).



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We reviewed jeopardy assessments for 26 different taxpayers affecting 99 tax periods and found that all had been properly approved by the Office of Chief Counsel, as required.

The Automated Manual Assessment computer application was developed in part to process jeopardy assessments. It was designed to provide one-stop processing and eliminate many of the labor-intensive procedures for processing manual assessments, including jeopardy assessments. The application generates, collects, and stores taxpayer information that is pertinent to the processing of assessments on taxpayer accounts. IRS personnel at the Submission Processing Site² included in our audit were properly using the application to input jeopardy assessments, and controls to access and use the application were adequate.

Recommendations

We made no recommendations in this report. However, key IRS management officials reviewed it prior to issuance.

Copies of this report are also being sent to the IRS managers affected by this report. Please contact me at (202) 622-6510 if you have any questions or Daniel R. Devlin, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-8500.

² The data processing arm of the IRS. The sites process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



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Background

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98)¹ made significant structural changes in the management and oversight of the IRS and enhanced the rights and protections applicable to taxpayers. Provision 3434 of RRA 98 provides a protection for taxpayers subject to audit or collection activities. It amended Internal Revenue Code Section 7429(a)(1)(A) (1994 & Supp 3 1997) and prohibited jeopardy assessments unless the IRS Chief Counsel or delegate personally approved in writing such assessments.

Jeopardy assessments are immediate assessments of tax, penalty, or interest that must be manually processed in circumstances in which collection of a tax would be endangered if normal processing procedures were followed. IRS personnel generally prepare these manual assessments when the statute of limitations is imminent or when the collection process must be accelerated. Possible reasons for accelerating an assessment include (1) the taxpayer appears to be planning to go into hiding or depart the United States, (2) the taxpayer appears to be planning to place property beyond the reach of the IRS, or (3) the taxpayer's financial solvency appears to be imperiled. Jeopardy processing allows an assessment date approximately 14 calendar days earlier than if the assessment was processed normally.

When a jeopardy assessment is made, the taxpayer is entitled to receive a written statement within 5 calendar days that explains the information the IRS relied on for making the jeopardy assessment. The taxpayer may request an administrative review after receiving the 5-day notice. If approval was not properly obtained from the Office of Chief Counsel, the taxpayer would be entitled to an abatement of this assessment. If the IRS fails to offer such relief, the taxpayer can appeal to the IRS Appeals office and then to tax court if he or she is not satisfied with the Appeals office judgment.

Formerly, there was no requirement for the Office of Chief Counsel to preapprove jeopardy assessments. In passing this law, Congress believed it was appropriate to require the Office of Chief Counsel to review and approve jeopardy assessments because they often involve difficult legal issues. The authority of the Chief Counsel may not be delegated to anyone lower than an Associate Area Counsel.

This review was performed at the Accounting Control/Services Operation in the Ogden Submission Processing Site² in Ogden, Utah, during the period October 2005 through February 2006. The audit was conducted in accordance with *Government Auditing Standards*.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

² The data processing arm of the IRS. The sites process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



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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 Internal Revenue Service Effectively Implemented Legislation Mandating Changes to Processes for Making Jeopardy Assessments

Provision 3434 of the RRA 98 requires the IRS Office of Chief Counsel to preapprove all jeopardy assessments. Before enactment of this Provision, IRS personnel were instructed to obtain approval from the Office of Chief Counsel only if time permitted. To facilitate implementation of Provision 3434, the IRS updated the Internal Revenue Manual and educated employees concerning the mandatory approval. Once the jeopardy assessment is properly approved, this information is entered into the Automated Manual Assessment application, which is used to control the assessment and billing documents.

The Internal Revenue Manual was updated, and employees were properly instructed

Provision 3434 required that instructions be issued to make it clear to IRS employees that the statutory requirement for approval of jeopardy assessments by the Office of Chief Counsel took precedence over previously issued instructions contained in the Internal Revenue Manual. This would prevent any jeopardy assessments without proper approval from the Office of Chief Counsel before the Internal Revenue Manual was officially changed. The IRS issued the required instructions then made the appropriate changes to the Internal Revenue Manual.

To determine whether employees were not only aware of but also following the new instructions, we reviewed a judgmental sample of jeopardy assessments made from September 14, 2004, through December 20, 2005. Jeopardy assessments were made on a total of 38 taxpayer accounts for 142 tax periods nationwide during this period. We reviewed documentation for 26 of these taxpayers affecting 99 tax periods. The control the IRS had developed for routing jeopardy assessment requests for appropriate approval signatures appeared to be working.³

³ The IRS requires a final approving signature from the Chief Counsel or a delegate, but it does not have a list of valid signatures. Because the control had been properly established, we did not do further testing to validate each Chief Counsel signature.



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The Automated Manual Assessment application was used to control jeopardy assessments

The Automated Manual Assessment computer application was developed to provide one-stop processing and eliminate many of the labor-intensive procedures for processing manual assessments. IRS personnel access and use the application to process and control all manual assessments, including jeopardy assessments. This is a nationwide computer application that generates, collects, and stores data that are pertinent to the processing of manual assessments on taxpayer accounts. The application does the following:

- Performs math verification.
- Conducts transaction validation.
- Generates a Document Locator Number⁴ to control assessment source documents.
- Prints Prompt Assessment Billing Assembly (Form 3552(C)).
- Prints Block Control File (Form 813).⁵
- Archives assessments to assist in research and to reduce the need for physical space to store source documents.
- Provides nationwide consistency in recording journal entries for the Accounting function.

IRS personnel at the Ogden Submission Processing Site were properly using the Automated Manual Assessment application to process and control jeopardy assessments. We also determined that access to the Automated Manual Assessment application was restricted to only authorized users based on database permissions.

An employee duty chart outlining responsibilities for input of the assessment cases was posted and followed each day. The chart assigned the initial input, key verification, and posting of the day's transactions to the Interim Revenue Accounting Control System to different employees and ensured these assignments were regularly rotated. The duty chart also showed how the responsibilities for assessment processing were regularly rotated and separated daily; these input duties were being followed.

⁴ A unique number assigned to every tax return to assist in controlling, identifying, and locating the return.

⁵ The Form 813 lists documents, lists assessment accounts with totals, and gives or provides the grand total of the Form. It is then used as a source document for journaling on the Interim Revenue Accounting Control System, a system used to record tax revenue due the Federal Government and maintain records of internal taxpayer account transactions, assessments, collections, accounts receivables, disbursements, and over-assessments. This is an Office of Management and Budget reported Financial Management System.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Internal Revenue Service (IRS) effectively implemented Provision 3434 of the IRS Restructuring and Reform Act of 1998 (RRA 98),¹ which requires the IRS Office of Chief Counsel to approve all jeopardy assessment cases. To accomplish this objective, we:

- I. Evaluated jeopardy assessment processing procedures.
 - A. Determined jeopardy assessment processing procedures by reviewing the Internal Revenue Manual and instructions to IRS personnel.
 - B. Determined necessary changes in processing jeopardy assessments due to enactment of the RRA 98.
 - C. Interviewed IRS personnel at the Ogden Submission Processing Site² in Ogden, Utah, to determine whether cases were processed according to Internal Revenue Manual procedures.
- II. Reviewed controls over the Automated Manual Assessment application³ to determine whether access, approval, and input to the application were being controlled as required by the Internal Revenue Manual.
 - A. Determined internal controls for the Automated Manual Assessment application by reviewing the Automated Manual Assessment User's Guide and interviewing IRS personnel.
 - B. Interviewed IRS processing personnel and management, as necessary, to determine actual processing and approval procedures.
 - C. Determined whether controls were functioning as intended by interviewing IRS personnel at the Ogden Submission Processing Site and observing the access, approval, and input processes.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

² The data processing arm of the IRS. The sites process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

³ This application was developed to provide one-stop processing and eliminate many of the labor-intensive procedures for processing manual assessments. IRS personnel access and use the application to process and control all manual assessments, including jeopardy assessments.



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- III. Determined whether jeopardy assessment cases were properly approved.
- A. Requested and determined the reliability of jeopardy assessment data contained in the Automated Manual Assessment application. IRS management at the Ogden Submission Processing Site provided us with data containing all 142 jeopardy assessment cases processed from September 14, 2004, through December 20, 2005, that had been entered on the Automated Manual Assessment Database.⁴ We compared 99 of the 142 Recommendations for Jeopardy/Termination Assessment (Form 2644) to data that had been entered into the database and determined the data were sufficiently reliable for our purposes.
 - B. Reviewed a judgmental sample of 99 (affecting 26 taxpayers) of the 142 jeopardy assessments (affecting 38 taxpayers) made nationwide from September 14, 2004, through December 20, 2005. We analyzed Forms 2644 to determine whether all jeopardy assessments were requested on the appropriate Form and had all of the required approvals and signatures from the Office of Chief Counsel.⁵

⁴ IRS management represented that all of the jeopardy assessments processed during the dates specified were included on the list they provided to us. Because there was no alternative way to identify jeopardy assessments or to verify that all jeopardy assessments processed during the dates specified were provided on the list, we relied on the data supplied by the IRS.

⁵ We selected a judgmental sample because the entire universe of 142 case files had not been received by the close of fieldwork. Accordingly, we could not select a random sample of these cases or perform a 100 percent review.



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Appendix II

Major Contributors to This Report

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Appendix III

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