



*Current Practices Are Preventing a
Reduction in the Volume of
Undeliverable Mail*

May 14, 2010

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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.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

May 14, 2010

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Current Practices Are Preventing a Reduction in
the Volume of Undeliverable Mail (Audit # 200940008)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) can reduce the volume of undeliverable mail. This audit was conducted as part of the Treasury Inspector General for Tax Administration Fiscal Year 2009 Annual Audit Plan.

Impact on the Taxpayer

The IRS mails approximately 200 million notices and letters to individual and business taxpayers and their representatives each year. However, millions of pieces of mail are returned undeliverable to the IRS for various reasons. There are opportunities for the IRS to reduce the volume of undeliverable mail through better customer service, system enhancements, and some industry best practices. When mail is undeliverable, the amount taxpayers owe can grow as interest and penalties multiply, and the IRS may eventually levy assets such as bank accounts to pay the debt owed for taxes, penalties, and interest.

Synopsis

During Fiscal Year 2009,¹ approximately 19.3 million pieces of mail were returned to the IRS at an estimated cost of \$57.9 million. A significant portion of the mail returned to the IRS cannot, in all likelihood, be eliminated because the causes are external to the IRS and/or are beyond its control. However, there are opportunities for the IRS to reduce the volume of undeliverable mail through better customer service, system enhancements, and some industry best practices.

¹ Through September 25, 2009.



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From a random sample of 331 notices and letters returned to the IRS, we found:

- 124 (37 percent) could not be delivered because the address was bad (invalid or nonexistent).
- 115 (35 percent) were delivered to the address on the envelope, but the taxpayer to whom the notice was addressed did not live at that address. Either the taxpayer had never lived at that address or had moved.
- 80 (24 percent) were refused by the taxpayer or the taxpayer was not home to receive the certified or registered mail.
- 12 (4 percent) were returned for other reasons.

Providing additional methods for taxpayers to update addresses could provide the IRS with more current addresses. The IRS does not allow most taxpayers to submit a change of address online through the IRS public Internet site, IRS.gov. The IRS allows taxpayers to submit a change of address online only when inquiring about a refund that was not received. In addition, the IRS allows taxpayers to provide it with changes of address over the telephone only in two circumstances: 1) if they are due a refund but did not receive it or 2) if they have an open control on their tax account (i.e., an IRS employee is actively working on the account). Contacts with other Federal Government agencies and large private sector companies showed they allow customers to submit change of address requests over the telephone without written verifications.

System enhancements, such as the expanded use of address hygiene software,² system changes to accept international addresses, and the use of indicators on taxpayer accounts with known bad addresses, could reduce the volume of undeliverable mail. The IRS has been using address hygiene software on the Master File³ for approximately 28 years, but continues to limit the software to a small number of systems and restrict its functionality to make systemic changes when errors are identified. Moreover, analyses of the Master File identified 2.1 million taxpayers with international addresses who are at risk of not receiving correspondence from the IRS because many international addresses do not fit into IRS systems' formats.

The use of a universal indicator for taxpayer accounts with a bad address could trigger the suspension of all nonstatutory notices. The IRS is not required by law to issue 7 of the 13 high-volume notices⁴ issued during Fiscal Year 2009. The IRS mailed approximately 42.4 million of these notices in Fiscal Year 2009.

² Address hygiene software evaluates the accuracy of addresses.

³ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

⁴ High-volume notices means the IRS sent a significant number of these types of notices to taxpayers.



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Using the United States Postal Service (USPS) full service Intelligent Mail barcode on all correspondence could provide significant savings in labor and annual postage costs. The full service Intelligent Mail barcode is the next generation of USPS barcode technology used to sort and track letters. The USPS gives barcode users a discount of \$.003 per piece of mail. This could save the IRS approximately \$600,000 annually in postage costs.⁵ Additional cost savings would occur from reductions in labor and systems utility.

Adding the last four digits of an individual's Social Security Number to the USPS Change of Address form would ensure the IRS is updating the correct record and significantly increase the number of National Change of Address database matches to the Master File. The IRS leases access to the USPS National Change of Address database to update the Master File with the most current mailing addresses for taxpayers. However, the Master File was updated for only about 20 percent of the millions of changes of address. The IRS was unable to update most of the addresses because there was not a perfect match between the taxpayer's name and previous address on the National Change of Address database and the name and address on the IRS Master File.

The IRS also lacks a standardized method for processing undeliverable mail. This increases the risk that taxpayers' addresses are not timely updated. Taxpayers are negatively affected when they do not receive their notices timely, possibly incurring additional interest and penalties. In addition, work is duplicated and IRS resources are needlessly expended.

Recommendations

We recommended that the Commissioner, Wage and Investment Division, should revise guidelines to allow all taxpayers to change their address by telephone and on any notices requiring a response or a payment voucher in accordance with Revenue Procedure 2001-18.⁶ A full analysis should be conducted using address hygiene software to identify bad addresses, and procedures should be developed to place an indicator on taxpayer accounts with a bad address and suspend the issuance of nonstatutory notices. Also, address hygiene software should be used on any address system to ensure all outgoing correspondence have an accurate and complete address. The Commissioner, Wage and Investment Division, should develop standardized procedures 1) to ensure the Receipt and Control function keep/burn list is consistent for all Submission Processing Sites and 2) for processing undeliverable mail for all IRS functional offices. Also, guidelines should be revised to ensure undeliverable mail is not destroyed when an updated address is provided by the USPS. Finally, the Commissioner, Wage and Investment Division, should consider identifying key notices in which the IRS could benefit from the use of

⁵ We calculated the \$600,000 by multiplying the number of notices the IRS mails annually by the discount the USPS gives for using the Intelligent Mail barcode (200,000,000 x \$.003).

⁶ This Revenue Procedure explains how a taxpayer is to inform the IRS of a change of address.



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the full service Intelligent Mail barcode and establishing one functional office at each Submission Processing Site responsible for handling all undeliverable mail.

Response

IRS management agreed with all of our recommendations. Management revised Revenue Procedure 2001-18 to allow address changes based on taxpayer oral notification during telephone contacts and redesigned notices for taxpayers to communicate new address information. The IRS will also integrate address hygiene software on identified affected systems to ensure all outgoing correspondence have accurate and complete addresses. Further, management requested a new indicator to identify bad addresses and suppress the generation of notices when appropriate. The IRS will also conduct a comprehensive study of the benefits of Intelligent Mail barcodes. Finally, it standardized procedures for undeliverable mail in one functional office and will conduct a feasibility study on developing standardized procedures for processing undeliverable mail for all IRS functional offices. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-5916.



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Abbreviations

IDRS	Integrated Data Retrieval System
IRS	Internal Revenue Service
NCOA	National Change of Address
USPS	United States Postal Service



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Background

The Internal Revenue Service (IRS) annually publishes and mails approximately 31 million tax forms, instructions, and publications that taxpayers need to file their tax returns and comply with the Federal tax laws. It also mails approximately 200 million notices and letters to individual and business taxpayers and their representatives each year. During Fiscal Year 2009, the IRS Media and Publications function, which is responsible for the IRS publication and postage

budget, mailed 201 million notices (including letters) totaling \$141 million.

Mail is returned to the IRS for various reasons:

- The USPS delivered mail to the taxpayer, but the taxpayer refused delivery. This mail is not considered undeliverable.
- The IRS mailed notices to the taxpayer certified or registered¹ and the taxpayer was not home when the USPS attempted delivery. The USPS makes 2 attempts to deliver the mail and then holds it at the local USPS office for 15 days for the addressee to claim it. This mail is not considered undeliverable.
- The USPS delivered mail to the address on the envelope, but the taxpayer does not live at that address or the taxpayer moved and did not leave a forwarding address.
- Mail cannot be delivered because the address does not exist (is bad or invalid).

During Fiscal Year 2009,² approximately 19.3 million pieces of mail were returned to the IRS Receipt and Control functions³ at an estimated cost of \$57.9 million. The IRS states that each piece of mail returned to the IRS costs approximately \$3.

There are multiple causes for returned mail. For example, taxpayers move and leave no forwarding addresses with the United States Postal Service (USPS) or the IRS, the USPS cannot deliver the mail because the taxpayer does not live at the address, or the IRS does not have the correct or accurate address in its systems. Further, the IRS may not have an accurate address in its systems because either the taxpayer provided an inaccurate address or an IRS employee input the taxpayer's address incorrectly.

In addition, forms, instructions, and publications that the USPS cannot deliver are not returned to the IRS. Instead, the USPS destroys them.

¹ With Certified Mail™, the sender receives a receipt stamped with the date of mailing. A unique article number allows the sender to verify delivery online. In addition, the recipient's signature is obtained at the time of delivery and the USPS maintains a record of it. With registered mail, mail is placed under tight security from the point of mailing to the point of delivery and insured. It can also be combined with the same services as certified mail.

² Through September 25, 2009.

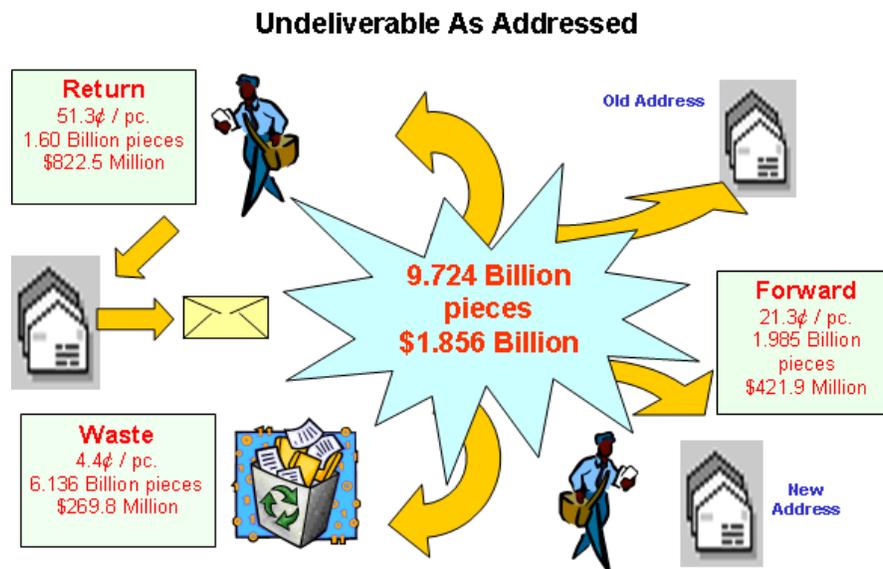
³ These functions receive incoming mail, including tax returns and other taxpayer correspondence. The IRS consolidated its 10 Submission Processing Sites to 6 locations. Mail handling functions remained at the Receipt and Control functions of each of the six Submission Processing Sites. The remaining mail handling functions were absorbed by the remaining Submission Processing Sites or by other IRS functions.



Current Practices Are Preventing a Reduction in the Volume of Undeliverable Mail

The USPS annually receives 9.7 billion pieces of Undeliverable-As-Addressed⁴ mail at a cost of approximately \$1.9 billion. Almost 5 of every 100 pieces of mail are Undeliverable-As-Addressed. Seventy-five percent of the USPS Undeliverable-As-Addressed mail relates to individuals who moved. The other 25 percent relates to a poor physical address (wrong address) or a non-address issue such as the addressee refused the mail or is deceased. The USPS will not reject mail if it knows the address is bad. It accepts and tries to deliver all mail. Figure 1 shows the cost and volume of undeliverable mail reported by the USPS for Fiscal Year 2009.

Figure 1: Cost and Volume of Undeliverable Mail Reported by the USPS for Fiscal Year 2009⁵



Source: The USPS.

This review was performed in the IRS Media and Publication function in Washington, D.C., and at two IRS Submission Processing Sites in Fresno, California, and Atlanta, Georgia, during the period July 2009 through February 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence

⁴ Undeliverable-As-Addressed mail cannot be delivered as addressed because the recipient has either moved and did not file a change of address order, or physical delivery is impossible due to reasons other than a move, such as illegible writing, refused, attempted not known, and no such street.

⁵ The total cost of \$1.856 billion includes \$342,210 in indirect costs. Also, due to rounding, the figures do not equal the totals.



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obtained provides a reasonable basis for our findings and conclusions based on our audit objective. 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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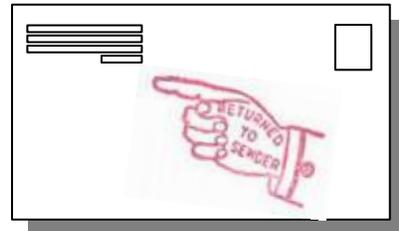
Results of Review

Opportunities Exist to Reduce the Volume of Undeliverable Mail

A significant portion of the mail returned to the IRS cannot, in all likelihood, be eliminated because the causes are external to the IRS and/or are beyond its control. Taxpayers refuse delivery of notices or do not provide the IRS or the USPS with accurate and current addresses. However, there are opportunities for the IRS to reduce the volume of undeliverable mail through better customer service, system enhancements, and some industry best practices.

From a random sample of 331 notices and letters returned to the IRS, we found:

- 124 (37 percent) could not be delivered because the address was bad (invalid or nonexistent).
- 115 (35 percent) were delivered to the address on the envelope, but the taxpayer to whom the notice was addressed did not live at that address. Either the taxpayer had never lived at that address or had moved.
- 80 (24 percent) were refused by the taxpayer or the taxpayer was not home to receive the certified or registered mail – 78 were unclaimed and 2 were refused.
- 12 (4 percent) were returned for other reasons – 9 had no indications on the envelopes why the mail was returned or the reasons on the envelopes were not legible, 1 was returned because the taxpayer was deceased, 1 had notations written on the envelope by a third party,⁶ and 1 had “other reasons” noted on the envelope by the USPS.



When mail that the IRS sends is returned and the IRS subsequently attempts to contact the taxpayers, it incurs additional processing and postage costs. There are also possible consequences for taxpayers when mail is undeliverable. The amount owed can grow as interest and penalties multiply, and the IRS may eventually levy assets such as bank accounts to pay the debt owed for taxes, penalties, and interest.

⁶ The IRS cannot accept changes of address from third parties, except the USPS.



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Many taxpayers do not provide the IRS with an address or do not provide an accurate address

When taxpayers leave the address field on the tax returns blank, IRS employees are instructed to research for a better address, and if one cannot be found input the IRS Submission Processing Site address. Analyses of the Master File⁷ identified 11,200 taxpayer accounts where an IRS Submission Processing Site was listed as the taxpayer's address. A Fiscal Year 2008 IRS study also identified 110,274 refunds that were undeliverable because taxpayers listed email addresses, Social Security Numbers, or other data as their addresses. These tax returns were filed electronically.

Two hundred and thirty-nine (72 percent) pieces of returned mail from our sample of 331 pieces could not be delivered to the addresses provided. The IRS obtains most taxpayer addresses when taxpayers file their tax returns. In addition, when conducting a survey on Refund Anticipation Loans for a prior Treasury Inspector General for Tax Administration audit,⁸ we mailed 3,500 survey letters to taxpayers asking them to participate in the survey. We mailed the letters within weeks of the tax returns' filing dates. Nevertheless, 3 percent (118 of 3,500) were returned.

Providing taxpayers with additional methods to update addresses could provide the IRS with more current addresses

The IRS does not allow most taxpayers to submit a change of address online through the IRS public Internet site, IRS.gov. The IRS allows taxpayers to submit a change of address online only when inquiring about a refund they did not receive. Also, the IRS allows taxpayers to provide the IRS with changes of address over the telephone only in two circumstances: 1) if they are due a refund but did not receive it or 2) if they have an open control on their tax account (i.e., an IRS employee is actively working on the account). In all other circumstances, taxpayers must wait to provide the IRS with a change of address when they file their tax returns or submit a Change of Address (Form 8822). During Fiscal Year 2009, the IRS processed 743,985 Forms 8822 at a cost of \$657,559.

In Fiscal Year 2009, the USPS reported that 45 million people moved and there were 1.8 million new addresses in the United States.

Americans are a mobile society and millions move annually. In Fiscal Year 2009, the USPS reported that 45 million people moved and that there were 1.8 million new addresses in the

⁷ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

⁸ *Many Taxpayers Who Obtain Refund Anticipation Loans Could Benefit From Free Tax Preparation Services* (Reference Number 2008-40-170, dated August 29, 2008).



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United States. Both IRS internal guidelines and information on IRS.gov stress the importance of ensuring the IRS has taxpayers' current addresses. IRS.gov states the following:

If your address has changed, you need to notify the IRS to ensure you receive any IRS refund or correspondence. There are several ways to notify the IRS of an address change. If you change your address before filing your return, you may correct the address legibly on the mailing label from your tax package or write the new address in the appropriate boxes on your return when you file. When your return is processed, we will update your records.

If you change your address after filing your return, you should notify the post office that services your old address. Because not all post offices forward government checks, notifying the post office that services your old address ensures that your mail will be forwarded, but not necessarily your refund check. To change your address with the IRS, you may complete a Change of Address (Form 8822) and mail it to the address on the form.

The IRS does not accept changes of address over the telephone for all taxpayers

If a taxpayer voluntarily calls the IRS to report an address change, IRS procedures require that the telephone assistants accept the new address only for the purpose of mailing the taxpayer a change of address form. At one time, the IRS had planned to allow taxpayers to use the keypad on their telephones to submit a change of address, but it did not implement that service.

The IRS believes having taxpayers submit Form 8822 reduces the risk that an individual other than the taxpayer would submit a fraudulent change of address. However, there is no address verification performed on the Form 8822. Therefore, the acceptance of address changes over the telephone should pose no greater risk to the IRS than accepting written notifications, especially if the IRS uses appropriate authentication procedures.

Contacts with State and Federal Government agencies and large private sector companies showed that they allow customers to submit change of address requests using the telephone. They do not require written verifications from customers before making the address changes over the telephone because there is a process to authenticate callers.

In December 1994, the Government Accountability Office recommended that the IRS accept changes of address over the telephone, but the IRS responded that its Office of Chief Counsel must approve the change.⁹ The IRS Office of Chief Counsel's position remains that written documentation is required before the IRS accepts a change of address from a taxpayer who voluntarily calls the IRS telephone lines to submit a change of address.

⁹ *Tax Administration: Changes Needed to Reduce Volume and Improve Processing of Undeliverable Mail* (GAO/GGD-95-44, dated December 1994).



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Not all notices ask taxpayers to provide a new address

A review of 13 IRS notices with a high volume¹⁰ showed that only 2 notices, the Verification for Unreported Income, Payments, or Credits (CP 2000) and the Installment Agreement Accepted: Terms Explained (Letter 2273C), ask the taxpayer if the IRS has his or her current address and, if not, asks the taxpayer to contact the IRS with a current address. In addition, 11 of the 13 notices contain a payment voucher or require a written response from the taxpayer. Yet only the CP 2000 provides a space for the taxpayer to provide a new address when the voucher or response is returned to the IRS. During Fiscal Year 2009, the IRS issued 56 million notices that did not contain a space for the taxpayer to provide a new address.

Each of these notices has available space to include inquiries about a new address. It is a common practice for many private sector companies to include in their correspondence a request for a new or updated address. Providing this option would allow the IRS to update its systems to ensure that further mailings are mailed to the taxpayer's current address.

Revenue Procedure 2001-18¹¹ states that if a taxpayer wishes to change the address of record, the taxpayer must give clear and concise notification. Correspondence the IRS sends to taxpayers that requests or requires a response by the taxpayer and is returned to the IRS with corrections marked on the taxpayer's address information will constitute clear and concise written notification of a change of address. The taxpayer's signature on the correspondence is not required.

System enhancements could reduce the volume of undeliverable mail

For the period February through December 2008, the Correspondence Production Services function¹² mailed 86.4 million notices. Of the 86.4 million notices, it mailed almost 5 percent (approximately 4.1 million of 86.4 million) to addresses identified by address hygiene software¹³ as bad addresses. Regardless, the notices were mailed with known bad addresses. There are currently no guidelines to stop the mailings to a known bad address and, in some cases, the notices are statutory and must be mailed even if to a bad address.

During Fiscal Year 2009, the IRS Submission Processing function proposed multiple programming changes designed to improve the quality of addresses and reduce the volume of undeliverable mail. However, the IRS made the decision not to fund the programming changes because of higher priorities. The changes would have 1) increased the use of address hygiene software, 2) created additional space for international addresses, and 3) expanded the use of an indicator to identify taxpayer accounts with a bad address.

¹⁰ High-volume notices means the IRS sent a significant number of these types of notices to taxpayers.

¹¹ This Revenue Procedure explains how a taxpayer is to inform the IRS of a change of address.

¹² The Correspondence Production Service function is responsible for printing, inserting, sorting, and mailing IRS notices.

¹³ Address hygiene software evaluates the accuracy of addresses.



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Address hygiene software could identify and reduce the number of invalid addresses currently listed in IRS management information systems

Address hygiene software identifies bad addresses and in some cases corrects them. For example, it will identify when a house number is not included with the street. It will also identify when a city and State do not match (e.g., Virginia Beach, Georgia). The software can also be programmed to make corrections when errors are identified (e.g., changing the above to Virginia Beach, Virginia).

The IRS has been using address hygiene software on the Master File for approximately 28 years. During this time period, the number of management information systems has increased and technological functionality of the software has changed. Employees input addresses into these systems that are subsequently updated to the Master File. However, the IRS continues to limit the software to a limited number of systems and limits its functionality to make systemic changes when errors are identified. A review of the Zip Code Error Report of bad addresses identified only about 20 errors that could not be resolved systemically in 1 week. A 1 week cycle consisted of more than 5 million Individual Master File¹⁴ records.

Most IRS management information systems do not use address hygiene software

The IRS has more than 40 different systems that generate more than 1,000 different types of notices and letters. Four primary systems are the: Master File, Integrated Data Retrieval System (IDRS),¹⁵ Automated Collection System,¹⁶ and Correspondex.¹⁷ Figure 2 shows the total volume of notices (millions) the IRS issued from the primary systems for Fiscal Years 2006 through 2009.

¹⁴ The IRS database that maintains transactions or records of individual tax accounts.

¹⁵ The system that allows IRS employees to take specific actions on taxpayer account issues, track status, and post transaction updates back to the Master File.

¹⁶ The system used by tax examiners to contact taxpayers; review their case histories; and issue notices, liens, or levies to resolve the cases.

¹⁷ The Real-Time IDRS system used to generate letters based on standard letter templates.



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**Figure 2: Volume of Notices (in millions) Issued from IRS
Management Information Systems for Fiscal Years 2006–2009**

System	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Total ¹⁸
Automated Collection System	10.2	10.8	8.8	11	40.8
Correspondex	18.6	21.2	22.6	24.9	87.3
IDRS	43.2	47.7	40.8	41.9	173.6
Master File	60.6	65.5	81.1	84.9	292.1
Total	132.6	145.2	153.3	162.7	593.8

Source: IRS Office of Notice Gatekeeper.

Once the addresses are updated and input into the previously discussed systems, they are uploaded to the Master File where address hygiene software is used. The Master File is the only primary system that uses address hygiene software.

The IRS needs to update management information systems to accept all international addresses

Analyses of the Master File identified 2.1 million taxpayers with international addresses who are at risk of not receiving correspondence from the IRS because many international addresses do not fit into IRS systems' formats. The Master File has inadequate space to input the entire foreign address when it is more than four lines. Many international addresses can contain up to eight lines of data.

A Fiscal Year 2007 IRS study¹⁹ identified 1.7 million taxpayer accounts with an international address that would cause mail to be returned as undeliverable. The study showed the IRS expends approximately \$1.2 million annually on international postage and printing. The approximate annual and 5-year costs to the IRS for not addressing the international problem are \$2.8 and \$14.1 million, respectively.

The IRS used address hygiene software to identify these accounts and reported that 65 percent could have been corrected and validated had the software been allowed to correct the errors. IRS officials stated that the earliest the IRS can revise the Master File to add space for international addresses is Fiscal Year 2011. The estimated cost to implement a full scale solution is \$2 million.

¹⁸ Due to rounding, the figures may not always equal the totals presented in the report.

¹⁹ *International Mailing Impact Analysis Report* (dated July 2007).



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Expanded use of indicators on taxpayer accounts with known bad addresses would prevent many nonstatutory notices from being mailed to bad addresses

The law requires statutory notices be mailed certified or registered to the taxpayer's last known address. Nevertheless, the IRS is not required by law to issue 7 of its 13 high-volume notices issued during Fiscal Year 2009. The IRS mailed approximately 42.4 million of these notices in Fiscal Year 2009.

The IRS has a process to suspend the issuance of notices in certain situations. The use of a universal indicator for taxpayer accounts with a bad address could trigger the suspension of all nonstatutory notices.

During Fiscal Year 2009, the IRS mailed approximately 5,473,547 Balance Due (CP 14) notices notifying taxpayers that their tax liabilities were not fully paid at the time they filed their tax returns. If the taxpayer fails to make full payment or the CP 14 notice is returned undeliverable, guidelines require the IRS to issue the taxpayer up to two additional nonstatutory notices. Using a conservative estimate, if 3 percent of these notices were returned as undeliverable, the IRS could have suspended the issuance of 328,412 additional notices from being mailed to bad addresses, saving approximately \$985,238.²⁰



The IRS recognizes the need to identify taxpayer accounts with a bad address. The Green Card Project, which was initiated in Fiscal Year 2005, is one way to mitigate the costs of undeliverable mail. The Project allows the IRS to track the issuance and delivery of certified or registered mail. If the USPS is unable to deliver the mail, an electronic file with the reason why the mail was undeliverable is electronically transmitted to the IRS. This eliminates the manual processing of the returned mail.

The IRS also uses this information to place a code on the taxpayer's account to indicate that the IRS attempted to contact the taxpayer. This serves as evidence in the event enforcement actions taken lead to a civil court case. However, IRS guidelines restrict the use of this code to the Collection function, and the code does not suspend the issuance of additional nonstatutory notices to the taxpayer.

We contacted a large private sector company and the State of California for information on how they identify accounts with a bad address. Both use an indicator on their electronic files to identify invalid taxpayer addresses. This indicator systemically suspends the issuance of additional mail to the bad address until a new address is received.

²⁰ We calculated the \$985,238 by multiplying the number of additional notices by the estimated cost the IRS incurs for each piece of undeliverable mail (5,473,547 x 3% x 2 nonstatutory notices = 328,412.82 x \$3 = \$985,238).

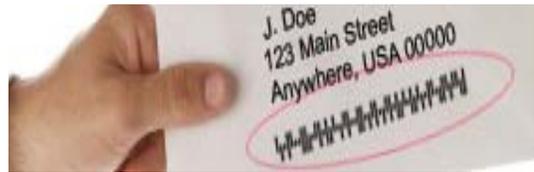


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The IRS could realize significant savings in labor and annual postage costs by using the USPS full service Intelligent Mail barcode on all correspondence

The full service Intelligent Mail barcode is the next generation of USPS barcode technology used to sort and track letters. The USPS reports that the Intelligent Mail barcode technology, among other things, expands the ability to track individual mail pieces and provides customers with greater visibility into the mail stream.

The full service Intelligent Mail barcode is a type of height-modulated barcode that uses four distinct vertical bar types. The USPS gives users of the barcode on correspondence a discount of \$.003 per piece of mail. This could save the IRS approximately \$600,000 annually in postage costs.²¹ Additional cost savings would occur from reductions in labor and systems utility.



The IRS currently places a barcode on all outgoing mail sent from the Correspondence Production Services function, but the data available for analyses are limited compared to what is available when the Intelligent Mail barcode is used. For example, with the expanded use of the Intelligent Mail barcode, the IRS could receive:

- Electronic tracking of all taxpayer correspondence, including reasons why mail was returned undeliverable.
- The capability of systemically placing indicators on taxpayer accounts when mail is undeliverable and an address is bad.
- Reduced labor costs associated with sorting, routing, and manually processing undeliverable mail.

The IRS could not provide specifics on the costs to implement the full service Intelligent Mail barcode, but it stated the postal discount would not offset the significant amount of additional infrastructure needed to accept the large amount of data available when the full service Intelligent Mail barcode is used. In addition, there would be significant challenges updating all the IRS systems with the new technology. However, the full service Intelligent Mail barcode would allow the IRS to significantly reduce labor costs associated with processing the 19.3 million pieces of mail returned to the IRS. Further, in 2011, the USPS is mandating the use of the full service Intelligent Mail barcode and the IRS needs to be in a position to implement it to take advantage of the benefits the full service Intelligent Mail barcode offers.

²¹ We calculated the \$600,000 by multiplying the number of notices the IRS mails annually by the discount the USPS gives for using the Intelligent Mail barcode (200,000,000 x \$.003).



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Adding the last four digits of the Social Security Number to the USPS Change of Address form would allow the IRS to update its systems with accurate current addresses

Treasury Regulations Section 301.6212-2 states:

The IRS will update taxpayer addresses maintained in IRS records by referring to data accumulated and maintained in the USPS NCOA database that retains change of address information for 36 months. If the taxpayer's name and last known address in IRS records match the taxpayer's name and old mailing address contained in the NCOA database, the new address in the NCOA database is the taxpayer's last known address, unless the IRS is given clear and concise notification of a different address.

For Fiscal Year 2009, millions of taxpayers submitted change of address forms to the USPS. The address changes are scanned into the USPS National Change of Address (NCOA) database. The IRS leases access to the NCOA database to update the Master File with the most current mailing addresses for taxpayers.

However, the Master File was updated for only about 20 percent of address changes submitted to the USPS. The IRS was not able to update most of the addresses because there was not a perfect match between the NCOA database and the taxpayer record. The IRS updates the Master File only when there is a perfect match—when the taxpayer's name and previous address on the

NCOA database exactly match the name and address on the IRS Master File. If the name and address do not match, the account is not updated and the last known address is maintained on the Master File. For example, an imperfect match would be when the name on the NCOA database is Bill Smith but on the Master File it is William Smith.

Adding the last four digits of an individual's Social Security Number to the USPS Change of Address form would ensure the IRS is updating the correct record and significantly increase the number of NCOA database matches to the Master File. As of the date of this report, USPS officials have elevated this option to their upper management for consideration.

The USPS has advised its business customers to improve address quality or risk losing postal discounts. Correct and current addresses in the Master File are not only essential to reduce taxpayer burden and save IRS resources, but the IRS has interagency agreements to share taxpayers' address information with all 50 States and several Federal Government agencies (the Social Security Administration and Census Bureau). Providing these agencies with known bad addresses increases the overall cost to the Federal Government and the volume of undeliverable mail handled by the USPS.



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Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Revise guidelines to allow all taxpayers to change their address when speaking with toll-free telephone assistants.

Management's Response: IRS management agreed with this recommendation. Revenue Procedure 2001-18 previously required written documentation from a taxpayer in order to change an address. The Revenue Procedure was recently revised to allow address changes based on taxpayer oral notification during telephone contacts. The IRS will follow the guidelines provided in the revision to Revenue Procedure 2001-18.

Recommendation 2: Include in the IRS notice improvement process, a review of all notices that require requesting taxpayers to contact the IRS with any changes of address. In addition, any notices requiring a response or a payment voucher from the taxpayer should allow taxpayers to provide their new address. Once received, the IRS should adhere to Revenue Procedure 2001-18 that gives employees authority to update addresses when taxpayers respond to correspondence received directly from the IRS.

Management's Response: IRS management agreed with this recommendation. The Wage and Investment Division, Office of Taxpayer Correspondence, has reviewed all notices which request taxpayers contact the IRS with any changes of address. Redesigned notices that include a contact stub provide space for taxpayers to communicate new address information to the IRS. Revenue Procedure 2001-18 has been revised to authorize employees to update addresses when taxpayers respond to correspondence received directly from the IRS.

Recommendation 3: Use hygiene software on any address system to ensure all outgoing correspondence have an accurate and complete address.

Management's Response: IRS management agreed with this recommendation. The IRS will identify and prioritize the affected systems and begin submitting Unified Work Requests²² prior to the Fiscal Year 2012 submission deadline of January 15, 2011. Due to the number of Unified Work Requests that may be required, estimated completion of the integration of the address hygiene software will occur by January 15, 2014. Since the requested actions will be subject to funding and resource prioritization by the Modernization and Information Technology Services organization, submission of the Unified Work Requests will complete the corrective action.

²² The internal process used to request services from the Modernization and Information Technology Services organization.



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Recommendation 4: Develop procedures to place indicators on taxpayer accounts with known bad addresses and suspend the issuance of all nonstatutory notices to taxpayers whose accounts have been identified as having a bad address. In addition, address hygiene software should be used to complete a full analysis of the Master File to identify all taxpayer accounts with a bad address to add the indicator to current accounts with bad addresses.

Management's Response: IRS management agreed with this recommendation. A Unified Work Request was submitted on February 25, 2010, to request a new indicator for identification of bad addresses. Establishment of this indicator will allow the various functions to suppress generation of notices, when appropriate. Because the changes are subject to funding and resource prioritization by the Modernization and Information Technology Services organization, submission of the Unified Work Request will complete the corrective action.

Recommendation 5: Conduct a study to identify key notices for which the IRS could benefit from using the Intelligent Mail barcode.

Management's Response: IRS management agreed with this recommendation. The Wage and Investment Division, Office of Taxpayer Correspondence, will lead the effort, in partnership with the Modernization and Information Technology Services organization and the Wage and Investment Division, Media and Publications and Submission Processing functions, to conduct a comprehensive study of the benefits of Intelligent Mail barcodes.

Improved Guidelines and Practices Are Needed for Processing Undeliverable Mail

The IRS does not have a standardized method for processing undeliverable mail. One office in each of the six Submission Processing Sites, the Receipt and Control function, sorts the returned mail, but does not research for better addresses or update IRS management information systems with new addresses.

The IRS does not have a centralized function or office that sorts the returned mail and researches and updates systems with new addresses. Other IRS functions including the Automated Collection System Support, Automated Underreporter Program, and Correspondence Examination functions, each process their undeliverable mail and each has their own procedures. Each function also works independently and generally does not coordinate or share results.

In addition, the guidelines and processes between the functions are inconsistent. This increases the risk that taxpayers' addresses are not timely updated. Taxpayers are affected when they do not receive their notices timely, possibly incurring additional interest and penalties. In addition, scarce IRS resources are needlessly expended duplicating work.



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Receipt and Control function guidelines need to be updated to ensure the functions effectively process returned mail

The IRS receives returned mail from the USPS at its six Submission Processing Site Receipt and Control functions. Employees sort the returned mail into two categories—keep and burn. Mail in the “keep” category is routed to the appropriate function that issued the correspondence. Mail in the “burn” category is destroyed without further processing. Receipt and Control function employees are not required to research for better addresses. The functional offices complete all research on mail returned to their respective functional offices.

Testing at two Receipt and Control functions identified the following:

- The returned mail keep/burn lists are not consistent. Auditors reviewed lists and determined that only 162 (54 percent) of 303 notices and letters were found on both lists. Some mail was burned on one list but not on the other. The lists should generally be consistent.
- Employees destroyed returned mail that had USPS yellow labels with updated taxpayer addresses without forwarding them to the issuing function. Receipt and Control function employees explained that guidelines instruct them to destroy mail even if a good address is identified on the USPS yellow label.

Inconsistent practices increase the risk that notices continue to be mailed to bad addresses

Visits to five functions to evaluate the effectiveness of internal controls used to process undeliverable mail showed that all five offices researched for new addresses and re-mailed statutory notices. However, not all offices used the address on the USPS yellow label to update a taxpayer’s account, offices used different methods to search for a new or better address, and offices were not all updating the systems with the new addresses. For example:

- 3 functions (60 percent) do not research external sources (i.e., public records) to identify new or better addresses.
- 3 functions (60 percent) do not update IRS systems with the address found on the USPS yellow label.
- 2 functions (40 percent) do not send letters to the taxpayer to confirm the new address is his or her actual address. When the IRS finds a new address for a taxpayer that comes from a third party other than the USPS, some offices mail a letter to the taxpayer asking the taxpayer to confirm that this address is in fact the taxpayer’s address.

The different functions process undeliverable mail differently and work independently. Each function has its own guidelines. Further, the functions’ management information systems are independent of each other and updating one with a new address does not ensure that other



Current Practices Are Preventing a Reduction in the Volume of Undeliverable Mail

systems will be updated with the new address. This leads to employees in other functions duplicating efforts to perform research for the same taxpayer whose current address had already been identified.

For example, when the IRS takes enforcement actions against taxpayers for underreporting their income, employees will issue a notice to inform the taxpayer that he or she owes tax. If the taxpayer does not receive the notice or pay the tax, the account will be transferred to employees in the Collection function who will send out additional notices to the same bad address.

Not all offices use the address on the USPS yellow label to update IRS systems

For three functions, employees were not updating management information systems when an updated address was identified on the USPS yellow label. This happened for the following reasons:

- Employees relied on the NCOA database to update the Master File with the new address.
- Employees did not know they could update the Master File using the new address from the USPS yellow label.
- Employees sent taxpayers a Form 8822 to confirm the address on the USPS yellow label and would not update the address until the taxpayer returned the Form 8822.

Some guidelines instruct employees to do nothing with new address information on the yellow labels because the IRS receives weekly address updates with the NCOA database. Other guidelines instruct employees to compare the date of the address on the yellow label to the last address update on the Master File. If the yellow label date was the more current, employees are instructed to update the taxpayer's record. However, our analyses showed only approximately 20 percent of the new addresses on the NCOA database were updated on the Master File during Fiscal Year 2009.

Employees in one function were resending notices to taxpayers when a new address was identified on the yellow label. However, employees in this function did not update the Master File with the new address, even though guidelines require the Master File to be updated when better addresses are identified. We discussed this issue with IRS management and they took immediate action, reminding employees of guidelines and procedures for updating addresses.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 6: Develop standardized procedures to ensure the Receipt and Control function keep/burn list is consistent for all Submission Processing Sites. Further, guidelines should be revised to ensure employees do not destroy undeliverable mail when an updated address is provided by the USPS yellow label.



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Management's Response: IRS management agreed with this recommendation. The Submission Processing function has developed standardized procedures for undeliverable mail. Guidelines and updates were made to the Internal Revenue Manual 3.13.62, Campus Document Services – Media Transport and Control.

Recommendation 7: Develop standardized procedures for processing undeliverable mail for all IRS functional offices. As part of this process, the possibility of establishing one functional office at each Submission Processing Site responsible for working all undeliverable mail (i.e., researching for new addresses and updating IRS systems) should be considered.

Management's Response: IRS management agreed with this recommendation. A study will be conducted to determine the feasibility of developing standardized procedures for processing undeliverable mail for all IRS functional offices.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the IRS can reduce the volume of undeliverable mail. To accomplish the objective, we:

- I. Determined if the IRS has adequate controls over taxpayer notices and letters to ensure its offices and functions are attempting to reduce undeliverable mail and effectively processing undeliverable mail.
 - A. Identified the USPS process for handling undeliverable mail.
 - B. Identified the process used by IRS functions to process undeliverable mail. We compared and documented differences between the guidelines IRS employees must follow to process undeliverable mail received by selected functions at two campuses.¹ We compared and documented differences between the undeliverable mail keep/burn lists from the Receipt and Control functions at two campuses.
 - C. For each function, determined the types and statistical data tracked for undeliverable mail.
 - D. Selected a random sample of 331 notices and letters returned to the IRS from 6 functions: Accounts Management, Automated Collection System Support, Automated Substitute for Returns, Automated Underreporter Program, Compliance Services Collection Operations, and Correspondence Examination to determine the reasons why and areas where the IRS can realize the most cost savings from reducing the volume of undeliverable mail. We used a random sample because we did not plan to project over the entire population of notices and letters. We were unable to determine the population of notices and letters due to the volume of mail returned daily to the IRS.

¹ The data processing arm of the IRS. The campuses 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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- II. Determined if the IRS can reduce the undeliverable mail cost for notices and letters issued by the Master File, IDRS, Automated Collection System, and Correspondex.² Using Fiscal Year 2008 data, we:
 - A. Identified and selected the top three notices/letters from each category in Step II. and IRS functional area in Step I.D. We determined the purpose, volume, and the associated publishing and postage costs for each notice. We traced notices or letters to IRS internal guidelines to determine if they are destroyed or retained. We also determined the before and after notice stream for these documents and identified if the notice or letter is required by law and the legal requirements.
 - B. Analyzed the IRS September 2008 list of notices and letters sent out with bad addresses that could possibly be eliminated with address hygiene software.
- III. Evaluated the effectiveness of existing internal controls and processes to reduce the volume of mailing correspondence to bad addresses.
 - A. Determined how the IRS uses weekly address updates received from the NCOA database to reduce the amount of undeliverable mail.
 - B. Determined the volume of bad addresses submitted on individual tax returns. We obtained our data from the Return Transaction File Address file located on the Data Center Warehouse. We validated the reliability of the data by reviewing the fields in the datasets.
 - C. Determined the status of the Revenue Procedure request for the IRS to apply address hygiene software on additional systems.
 - D. Determined if the Modernization and Information Technology Services organization can add an indicator on IRS systems to identify when mail was undeliverable due to a bad address.
 - E. Identified obstacles preventing taxpayers from requesting a change of address via the toll-free telephone line or IRS.gov.
 - F. Determined if a system/policy change can be made to have certified mail delivered later in the week instead of on Mondays.

² The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data. The IDRS allows IRS employees to take specific actions on taxpayer account issues, track status, and post transaction updates back to the Master File. The Automated Collection System is used by tax examiners to contact taxpayers; review their case histories; and issue notices, liens, or levies to resolve the cases. The Correspondex is the Real-Time IDRS system used to generate letters based on standard letter templates.



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- G. Determined if the IRS can hold notices/letters in the system queue until an updated address is received from the taxpayer.
 - H. Accessed the Return Transaction File Address file to determine if the address field contains an email address. We validated the reliability of the data by randomly selecting records and viewing the tax record using the IDRS.
- IV. Contacted selected Federal Government agencies and large corporations that correspond with individuals to identify correspondence services they provide, such as electronic communications. We discussed with them any best practices for processing undeliverable mail and the costs associated with the services to identify and evaluate any technological innovations the IRS can use to reduce the amount of undeliverable mail.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: IRS policies, procedures, and practices for researching and updating taxpayer addresses. We evaluated these controls by conducting a walkthrough of functional offices, interviewing management, and analyzing reasons why mail was returned undeliverable.



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Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)
Augusta R. Cook, Director
Frank Jones, Audit Manager
Wilma Figueroa, Acting Audit Manager
Tanya Adams, Lead Auditor
Jerome Antoine, Auditor
Jerry Douglas, Auditor
Andrea Hayes, Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Deputy Commissioner for Services and Enforcement SE
Deputy Chief Information Officer for Strategy/Modernization OS:CTO
Deputy Commissioner, Wage and Investment Division SE:W
Director, Privacy, Information Protection, and Data Security OS:P
Director, Compliance, Wage and Investment Division SE:W:CP
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
SE:W:CAR
Director, Media and Publications, Wage and Investment Division SE:W:CAR:MP
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PRA:PEI
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Chief, Program Evaluation and Improvement, Wage and Investment Division
SE:W:S:PRA:PEI



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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Actual – Approximately 4,100,000 notices sent to bad addresses (see page 4).

Methodology Used to Measure the Reported Benefit:

For the period February through December 2008, the Correspondence Production Services function¹ mailed approximately 4.1 million (4.735 percent) of 86.4 million notices to a known bad address. We computed the number of notices with a bad address by analyzing notice data provided by the Correspondence Production Services function. The following factors were used to identify the number of notices with a bad address:

- Total volume of notices issued from February through December 2008 = 86,440,632.
- The percentage of notices issued with a bad address = 4.735 percent.

Number of notices with a bad address

$$86,440,632 \times 4.735 \text{ percent}^2 = 4,092,566$$

¹ The Correspondence Production Service function is responsible for printing, inserting, sorting, and mailing IRS notices.

² Due to rounding, the figures may not always equal the totals presented in the report. The actual number is 4.73453965491599 percent.



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Appendix V

Management's Response to the Draft Report



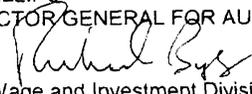
COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

RECEIVED
APR 28 2010
BY: DAS

APR 22 2010

MEMORANDUM FOR MICHAEL R. PHILLIPS,
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr. 
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Current Practices Are Preventing a
Reduction in the Volume of Undeliverable Mail
(Audit # 200940008)

I have reviewed the subject draft report and appreciate your acknowledgement of the challenges with undeliverable mail, especially your recognition that a significant portion is beyond the control of the IRS. It is a complex problem with no easy solutions. We agree with your finding that current practices are preventing the IRS from reducing the volume of undeliverable mail.

We recognize the importance of enhancing systems and practices, as they relate to address updates, and have taken steps to make improvements in several areas. We have worked closely with the IRS Office of Chief Counsel to revise Revenue Procedure 2001-18, Last Known Address. The revision, recently approved, will allow toll-free telephone assistants to make an address change when speaking with a taxpayer, in addition to authorizing employees to update addresses when taxpayers respond to correspondence received directly from the IRS.

Many of the IRS modernized systems, including Modernized Internet Employer Identification Number, On-Line Payment Agreement, Customer Account Data Engine, and Accounts Management Services, have been designed to include initial address checks to improve the quality of addresses at the point of input. However, various IRS applications and systems remain that must be updated to use address hygiene software at the earliest point in return and address processing. On March 31, 2010, we obtained an enterprise licensing agreement, which will allow for wider usage and integration, of the address hygiene software, with various independent systems.

With the enterprise licensing agreement in place, we can now proceed with planned changes to Return Processing systems that will enable the IRS to integrate quality



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improvements earlier. We have requested an indicator that will post to taxpayer accounts when addresses are known to be bad, or do not match United States Postal Service address databases. Further, we will be requesting changes to multiple systems to check addresses against address hygiene software, at the point of data entry, so that errors can be flagged for correction during processing, rather than afterward.

To further reduce the volume of undeliverable mail, we have revised applicable Internal Revenue Manuals to direct employees to perform adequate research before overlaying or updating taxpayers' accounts with a campus address when taxpayers do not provide their address on a new return.

Attached are our comments to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Peter J. Stipek, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Attachment



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Attachment

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1

Revise guidelines to allow all taxpayers to change their address when speaking with toll-free telephone assistors.

CORRECTIVE ACTION

We agree with the recommendation. Revenue Procedure 2001-18 previously required written documentation from a taxpayer in order to change an address. The Revenue Procedure was recently revised to allow address changes based on taxpayer oral notification during telephone contacts. We will follow the guidelines provided in the revision to Revenue Procedure 2001-18.

IMPLEMENTATION DATE

September 15, 2010

RESPONSIBLE OFFICIAL

Director, Accounts Management, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2

Include in the IRS notice improvement process, a review of all notices that require requesting taxpayers to contact the IRS with any changes of address. In addition, any notices requiring a response or a payment voucher from the taxpayer should allow taxpayers to provide their new address. Once received, the IRS should adhere to Revenue Procedure 2001-18 that gives employees authority to update addresses when taxpayers respond to correspondence received directly from the IRS.

CORRECTIVE ACTION

We agree with the recommendation. The Wage and Investment (W&I) Division, Office of Taxpayer Correspondence (OTC) has reviewed all notices which request taxpayers contact the IRS with any changes of address. Redesigned notices that include a contact stub provide space for taxpayers to communicate new address information to the IRS. Revenue Procedure 2001-18 has been revised to authorize employees to update addresses when taxpayers respond to correspondence received directly from the IRS.

IMPLEMENTATION DATE

N/A



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RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 3

Use hygiene software on any address system to ensure all outgoing correspondence have an accurate and complete address.

CORRECTIVE ACTION

We agree with this recommendation. Preliminary estimates indicate there are approximately 500 to 600 independent systems affected. We will identify and prioritize the affected systems and begin submitting Unified Work Requests (UWRs) prior to the Fiscal Year 2012 submission deadline of January 15, 2011. Due to the number of UWRs that may be required, estimated completion of the integration of the address hygiene software will occur by January 15, 2014. Since the requested actions will be subject to funding and resource prioritization by Modernization and Information Technology Services (MITS), submission of the UWRs will complete the corrective action.

IMPLEMENTATION DATE

January 15, 2014

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 4

Develop procedures to place indicators on taxpayer accounts with known bad addresses and suspend the issuance of all nonstatutory notices to taxpayers whose accounts have been identified as having a bad address. In addition, address hygiene software should be used to complete a full analysis of the Master File to identify all taxpayer accounts with a bad address to add the indicator to current accounts with bad addresses.



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CORRECTIVE ACTION

We agree with this recommendation. A UWR was submitted on February 25, 2010, to request a new indicator for identification of bad addresses. Establishment of this indicator will allow the various functions to suppress generation of notices, when appropriate. Because the requested system changes are subject to MITS funding and resource prioritization, submission of the UWR completes the corrective action.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 5

Conduct a study to identify key notices for which the IRS could benefit from using the Intelligent Mail barcode.

CORRECTIVE ACTION

We agree with this recommendation. The W&I Division OTC, will lead the effort, in partnership with MITS and the W&I Division Media and Publications and Submission Processing organizations, to conduct a comprehensive study of the benefits of Intelligent Mail barcodes.

IMPLEMENTATION DATE

April 15, 2011

RESPONSIBLE OFFICIAL

Director, Office of Taxpayer Correspondence, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 6

Develop standardized procedures to ensure the Receipt and Control function keep/burn list is consistent for all Submission Processing Sites. Further, guidelines should be revised to ensure employees do not destroy undeliverable mail when an updated address is provided by the USPS yellow label.



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CORRECTIVE ACTION

We agree with this recommendation. The Submission Processing function has developed standardized procedures for undelivered mail. Guidelines and updates were made to the Internal Revenue Manual 3.13.62, Campus Document Services - Media Transport and Control.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 7

Develop standardized procedures for processing undeliverable mail for all IRS functional offices. As part of this process, the possibility of establishing one functional office at each Submission Processing Site responsible for working all undeliverable mail (i.e., researching for new addresses and updating IRS systems) should be considered.

CORRECTIVE ACTION

We agree with this recommendation. A study will be conducted to determine the feasibility of developing standardized procedures for processing undeliverable mail for all IRS functional offices.

IMPLEMENTATION DATE

December 15, 2011

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.