



Publishing and Mail Costs Need to Be More Effectively Managed to Reduce Future Costs

February 28, 2011

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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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HIGHLIGHTS

PUBLISHING AND MAIL COSTS NEED TO BE MORE EFFECTIVELY MANAGED TO REDUCE FUTURE COSTS

Highlights

Final Report Issued on February 28, 2011

Highlights of Reference Number: 2011-40-025 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Part of the Internal Revenue Service's (IRS) mission is to help taxpayers understand and meet their tax responsibilities. To assist taxpayers in complying with their tax filing obligations, the IRS provides forms with instructions and publications to individual and business taxpayers. The Fiscal Year 2010 publishing and mail budget was more than \$272 million.

WHY TIGTA DID THE AUDIT

The IRS stated in its Fiscal Year 2011 budget request that it would reduce publishing and mail costs by \$26 million through efficiencies and savings, including eliminating the automatic mailing of business tax products. This audit was initiated to evaluate the IRS's efforts to reduce publishing and mail costs for tax forms and publications sent to businesses and nonprofits.

WHAT TIGTA FOUND

The IRS is reducing publishing and mail costs, but recent reductions have resulted from budget cuts and were not part of a long-term strategy. In response to the cost savings proposed in the Fiscal Year 2011 budget request, the IRS formed task forces to identify ways to achieve cost savings. A task force proposed 25 actions to reduce publishing and mail costs and lay the foundation for long-term implementation of cost reductions for Fiscal Year 2011 and beyond. However, the task force proposal did not include documentation to show the methodology used to make the proposals, how the estimates were calculated or validated, or how the IRS will measure the results or the cost savings of the proposals.

The task force believed that reducing the mailings of forms instead of eliminating them was a more cautious approach, affecting fewer taxpayers in the short term. Nevertheless, IRS executives decided to eliminate all mailings of tax packages for U.S. Individual Income Tax Return (Form 1040), partnerships, and corporations in Fiscal Year 2011 in order to meet the cost savings presented in the Fiscal Year 2011 budget request. This could increase burden and reduce compliance for those taxpayers who rely on receiving these packages by mail.

As the IRS moves forward with the proposed cost savings or pursues other methods of saving publishing and mail costs, it needs to implement sufficient controls and procedures to ensure the methodology for the decisions are documented and that the data used are accurate and complete. In addition, these controls should be part of a long-term strategy to continually assess publishing and mail costs and identify opportunities for cost reductions and efficiencies.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, establish and implement a system of internal controls to ensure that savings and cost data related to the elimination or reduction of mailing tax products are current and reliable. A strategy should be developed to ensure that publishing and mail costs are continually evaluated. The strategy should include goals and measures, as well as steps to monitor the effect on taxpayer burden and compliance.

In their response to the report, IRS officials agreed with both recommendations. Management implemented a system to ensure that savings and cost data related to the elimination or reduction of mailing tax products are current and reliable. The IRS also developed strategies to ensure that publishing and mail costs are continually evaluated, including a comprehensive strategy to measure the effect on compliance and burden of the current cost saving proposals.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 28, 2011

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

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

SUBJECT: Final Audit Report – Publishing and Mail Costs Need to Be More Effectively Managed to Reduce Future Costs (Audit # 201040019)

This report presents the results of our review to evaluate the Internal Revenue Service's efforts to reduce publishing and mail costs for tax forms and publications sent to businesses and nonprofits. This audit was conducted as part of the Treasury Inspector General for Tax Administration Fiscal Year 2010 Audit Plan and addresses the major management challenge of Leveraging Data to Improve Program Effectiveness and Reduce Costs.

Management's complete response to the draft report is included in Appendix V.

Copies of this report are also being sent to the Internal Revenue Service 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

<i>e-file</i>	electronically file
IRS	Internal Revenue Service
U.S.	United States



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Background

Part of the Internal Revenue Service's (IRS) mission is to help taxpayers understand and meet their tax responsibilities. To assist taxpayers in complying with their tax filing obligations, the



IRS provides forms with instructions and publications to individual and business taxpayers. The Fiscal Year 2010 publishing and mail budget was more than \$272 million.¹

The Media and Publications function of the IRS's Wage and Investment Division is responsible for the majority of the IRS's publishing and distribution services – most of which are contracted to outside vendors. Although the Media and Publications function funds the publishing and distribution of the majority of the IRS's documents, it does not control or own any of its products, and the administration of the publishing and postal budget crosses different IRS business units, offices, and functions. Each head of office determines printing and publishing needs of their respective areas.

The Media and Publications function has Publishing and Distribution Branches.

- The Publishing Branch plans, produces, or procures IRS print and electronic communications products used by the public to comply with tax filing requirements and obligations, and used internally within the IRS for tax administration. This encompasses document design, specifications writing, production planning, acquisition, and delivery/distribution coordination.
- The Distribution Branch provides planning and distribution services for IRS print and electronic communications products used by the public to comply with tax filing requirements and obligations, and used internally within the IRS for tax administration.



This review was performed in the Wage and Investment Division's Media and Publications function in Washington, D.C., and Submission Processing function in New Carrollton, Maryland; the Modernization and Information Technology Services organization's Applications Development function in New Carrollton, Maryland; the Small

¹ Written correspondence, including notices, account for approximately 59 percent of the publishing and mail budget.



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Business/Self-Employed Division in New Carrollton, Maryland; and the Tax Exempt and Government Entities Division in Washington, D.C., during the period April through November 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 objective. We believe that the evidence 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

The Internal Revenue Service Is Reducing Publishing and Mail Costs, but Recent Reductions Have Resulted From Budget Cuts, Not As Part of a Long-Term Strategy

Each year as part of the annual operating plan, the IRS identifies ways to reduce publishing and mail costs. Over the last 4 years, the IRS has reduced publishing and mail costs by eliminating the number of tax packages and publications it automatically mails to taxpayers and changing the way it does business. For example, the IRS:

- Created the P Code to designate which businesses filed their tax returns by paper. This allowed the IRS to eliminate mailing tax packages to businesses without a P Code since Fiscal Year 2009.
- Eliminated automatic mailings to individuals who use paid preparers or use tax return preparation software to either electronically file (*e-file*) their tax returns or prepare them and submit them on paper. The IRS reports that this effort has reduced tax packages from 110 million in 1991 to 10.7 million in 2010.
- Implemented E-Ordering for approximately 19,000 partners (mainly libraries and United States (U.S.) Post Offices). Instead of mailing paper order forms, the IRS emailed tax product order forms, which are then completed, emailed back, and automatically entered into an inventory system. E-Ordering eliminated both the cost of mailing tax package order forms and the cost of manually inputting responses.
- Expanded direct freight shipment to outlets in Fiscal Year 2007. This allowed full carton orders to be mailed directly from the print contractor to the Tax Forms Outlet Program² and Taxpayer Assistance Center locations. This prevents the double shipping costs encountered in the past when products were shipped into the National Distribution Center and were then reshipped to outlet partners.
- Beginning January 2008, the IRS stopped mailing the Return of Organization Exempt From Income Tax (Form 990) packages. Instead, in Calendar Years 2008 and 2009, the

Actions taken over the last 4 years have decreased the number of automatic mailings. For example, taxpayers who e-file or use preparers to prepare their tax returns no longer receive tax packages.

² The Tax Forms Outlet Program is a voluntary program that provides taxpayers with access to tax forms and related products in their local communities.



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IRS mailed a postcard, the Tax Product Availability for Exempt Organization Filers (Form 8160-T), informing taxpayers that the IRS was not sending tax packages and directing them to visit the IRS's public Internet site, IRS.gov, or to call the IRS to obtain the products. The IRS plans to stop mailing the Form 8160-T in December 2010.

- Beginning January 2011, the Federal Tax Deposit Coupon (Form 8109) will be discontinued to increase the number of electronic transactions. Businesses, except those that pay when filing their returns and have \$2,500 or less in quarterly tax liabilities, will be required to make Federal tax deposits electronically using the Electronic Federal Tax Payment System. The IRS estimated that this change will save approximately \$65 million in the first 5 years.

Although various initiatives have resulted in publishing and mail cost reductions over the last 4 years, the reductions have not been significant to the IRS's overall publishing and mail cost budget. The publishing and mail budgets for the last 4 fiscal years have averaged more than \$265 million, from \$249 million for Fiscal Year 2007 to more than \$272 million for Fiscal Year 2010. Approximately 59 percent of the publishing and mail budget goes to correspondence, including notices. There have also been postal budget deficits that required the IRS to fund a large portion of its postage costs from other programs.

The publishing and mail budgets for the last 4 fiscal years have averaged more than \$265 million, from \$249.4 million for Fiscal Year 2007 to \$272.5 million for Fiscal Year 2010.

Prior reductions in the publishing and postal budget have not been driven by a publishing and mail cost strategic plan with program evaluations, goals, and objectives, but rather from actions taken as part of the IRS's annual operating plans. IRS officials stated they believe they have made significant reductions; however, as reductions take place, other publishing and mail costs have increased, making it difficult to determine what savings have been achieved. Nevertheless, the IRS could not provide any documentation on total publishing and mail cost savings.

The IRS has not developed an official strategy that targets publishing and mail costs and includes, for example, a continual assessment of opportunities for cost reductions and efficiencies, and a plan to monitor results to ensure they are achieving expected savings and not over burdening taxpayers. In addition, the IRS has not verified or tracked the cost savings from prior actions.

The IRS formed task forces to identify ways to achieve the cost savings proposed in the Fiscal Year 2011 budget submission

In July 2009, in anticipation of the IRS's Fiscal Year 2011 budget proposal, the Office of Taxpayer Correspondence was asked to identify publishing and mail costs that could be



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eliminated. In order to respond, a group was tasked to produce estimates and recommendations for the cost savings.

The Office of Taxpayer Correspondence presented a number of recommendations, and in February 2010, the IRS submitted its Fiscal Year 2011 budget request, which included a proposal to reduce mail costs by \$20 million through efficiencies and savings by:

- **Eliminating Non-Mandated Notice Inserts.** The IRS mails more than 200 million notices each year that weigh from 1 to 3 ounces. About one-third of taxpayer notices weigh 2 or more ounces. By eliminating inserts, the notice could fall into a lower weight category and save the IRS 12.5 cents per notice.
- **Eliminating Automatic Mailing of U.S. Individual Income Tax Return (Form 1040) Tax Packages.** Each year, the IRS mails more than 17 million tax packages to taxpayers who have not used *e-filing* software or a tax practitioner. By eliminating the automatic distribution of Form 1040 tax packages, the IRS could save postage costs of 44 cents per package.
- **Eliminating the Automatic Mailing of Business Tax Products.** Each year, the IRS mails out more than 31 million business tax products. By eliminating the automatic distribution of business tax products, the IRS could save about 26 cents per package in postage costs.



The IRS also stated in the budget request that it would generate an additional \$6 million in cost savings by reducing agency-wide printing of selected internal manuals, selected training materials, and other items.

To identify ways to reduce mail, the IRS initiated a study of State best practices for eliminating the direct mailing of tax packages to individual taxpayers

In March 2010, several offices and functions within the IRS, along with the Federation of Tax Administrators,³ began a study to survey individual States that have eliminated direct mailings of tax packages. The survey results, reported in May 2010, showed that taxpayers understood and were sympathetic to the financial struggles faced by the participants.⁴

³ The Federation of Tax Administrators serves the principal tax collection agencies of the 50 States, the District of Columbia, Puerto Rico, and New York City. It serves as a source of information and expertise for State administrators and others on the workings of State tax agencies and systems, as well as issues generally affecting tax policy and administration.

⁴ The participants were the District of Columbia and the States of California, Georgia, Kansas, Louisiana, Mississippi, and South Carolina.



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The report recommended that the IRS:

- Share with taxpayers the decision to discontinue direct paper mailings if in response to budget cuts.
- Plan in advance for unexpected or potential setbacks, such as a high volume of requests for forms and publications.
- Inform distribution sites, such as libraries, post offices, and volunteer sites, of the impending decision to discontinue direct mailings to taxpayers.

To identify ways to reduce publishing and mail costs, the IRS formed the Printing and Postage Budget Reduction Task Force

In July 2010, IRS management established the Printing and Postage Budget Reduction Task Force to recommend proposals to reduce publishing and mail costs and lay the foundation for long-term implementation of cost reductions for Fiscal Years 2011 and 2012. The Task Force established three teams from across seven IRS functions to validate and streamline printing and postage requirements to achieve the \$26 million savings outlined in the Fiscal Year 2011 budget request and to support the President's Going Green Campaign.

The Task Force, consisting of three teams from across seven functions, is assessing opportunities for cost savings from the elimination or reduction of tax products.

The IRS Task Force analyzed Fiscal Year 2009 data on the number of tax packages and publications automatically mailed to taxpayers to identify ways to decrease publishing and mail costs. It looked at mailings with the highest volumes and costs. Taxpayer impact was also considered, as well as related costs, including the costs the IRS could incur should taxpayers call the IRS to request tax packages or publications.

The Task Force proposals were presented to IRS executives in September 2010. The proposal included 14 actions with more than \$14 million in net savings for Fiscal Year 2011, including approximately:

- \$355,000 in savings from redirecting business taxpayers who file U.S. Return of Partnership Income (Form 1065), U.S. Corporation Income Tax Return (Form 1120), and U.S. Income Tax Return for an S Corporation (Form 1120-S) to IRS.gov to obtain tax products.
- \$1 million in savings from eliminating non-mandatory inserts in all correspondence.
- \$2 million in savings from ending all non-required, next-day shipments by ground transportation.
- \$6 million in savings from 1) reducing the number of Form 1040 tax packages mailed by 19 percent, 2) reducing pages in Form 1040 tax packages, 3) sending postcards to



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validate taxpayer needs for Form 1040 packages, and 4) tailoring mailings of the Estimated Tax for Individuals (Form 1040-ES) and Payment Voucher (Form 1040-V).⁵

The Task Force also had 11 proposals totaling more than \$8 million in net savings that require further development.

The proposals were generally approved by IRS executives, with some revisions. For example:

- The Task Force proposed to reduce Form 1040 mailings by 19 percent and validate Form 1040 mailings via a postcard, giving taxpayers the option of sending back the postcard should they desire to receive a Form 1040 package by mail. Total elimination of Form 1040 mailings would come in Fiscal Year 2012. However, executives decided to discontinue mailings of all Form 1040 packages for Fiscal Year 2011.
- The Task Force proposed to tailor mailings of (*Circular E*), *Employer's Tax Guide* (Publication 15), by mailing Publication 15 only to those filers who filed certain forms and to new businesses. The decision was made to discontinue the annual mailings of Publication 15 and direct business taxpayers to IRS.gov to obtain this product, but to continue to mail Publication 15 to first-time new employers.

The Task Force members believed that reducing the mailings of forms instead of eliminating them was a more cautious approach, affecting fewer taxpayers in the short term. They also discussed mailing postcards to taxpayers in order to validate their need for printed products. In addition, the functions that own the business tax products recommended conducting additional analysis of the potential impacts on taxpayer burden and other processes before deciding whether to reduce or eliminate their tax products. Nevertheless, IRS executives decided to eliminate all mailings of tax packages for Forms 1040, 1065, 1120, and 1120-S in Fiscal Year 2011 in order to meet the cost savings presented in the Fiscal Year 2011 budget request.

The IRS is eliminating all mailings of tax packages for Forms 1040, 1065, 1120, and 1120-S in Fiscal Year 2011 in order to meet the cost savings presented in the Fiscal Year 2011 budget request.

There are some risks involved with these decisions; for example:

- Increased taxpayer burden. Taxpayers who need the tax products they used to receive automatically will have to call the IRS, visit local IRS offices called Taxpayer Assistance Centers, or go on IRS.gov to obtain them.
- Increased costs to the IRS. If a significant number of taxpayers call the IRS or visit a Taxpayer Assistance Center, the IRS will be providing the documents at a greater cost per document.

⁵ See Appendix IV for a list of Task Force proposals and subsequent approvals.



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- A reduction in tax compliance. Taxpayers may either forget to file or decide not to file if they do not receive a tax package in the mail.

Early communication about the decision to discontinue the automatic mailings should help mitigate the risks.

On September 24, 2010, the IRS announced that business and individual taxpayers will no longer receive paper tax packages in the mail from the IRS. In early October, the IRS sent a postcard, Tax Product Information for Forms 1065/1120/1120S Filers (Notice 1400-A), to businesses that normally receive their tax forms and publications, and a postcard, Tax Package Information for Individuals (Notice 1400), to individuals who filed paper returns last year and did not use a tax preparer or tax software. See Figure 1 for an excerpt from these Notices.

Figure 1: Tax Product Information Notices

Notice 1400-A

(September 2010)



Department of the Treasury
Internal Revenue Service

Notice 1400

(September 2010)



Department of the Treasury
Internal Revenue Service

Tax Product Information for Forms 1065/1120/1120S Filers

With the continued growth in electronic filing and to help reduce costs, the IRS will no longer mail paper tax packages. This includes the U.S. Return of Partnership Income Package (Package 1065), the U.S. Corporation Income Tax Package (Package 1120), and the S Corporation Income Tax Package (Package 1120S). The forms, schedules, and related instructions previously included in the packages will continue to be available separately, both electronically and in print. If you need any of these products, see *How To Get Forms and Instructions* below. The IRS encourages *e-filing* of returns; it is the safest, most secure way to transmit a tax return to the IRS. See irs.gov/efile for more information on IRS *e-file*.

Source: *IRS.gov*.

Tax Package Information for Individuals

With the continued growth in electronic filing and to help reduce costs, the IRS will no longer mail paper tax packages that typically arrive in January of each year. If you still wish to use a paper form, the IRS has several options available to help you obtain paper copies of individual forms and instructions, including:

- Accessing our forms and instructions online at *IRS.gov*. You can quickly download the latest products from our site.
- Dropping by your local IRS Taxpayer Assistance Center.
- Going to your local post office or library (if they participate in the federal tax products program).

The IRS is discontinuing mailings of all Form 1040 tax packages, but fewer individual taxpayers use hardcopy publications and forms

More individual taxpayers are *e-filing* their tax returns and using *IRS.gov* to obtain tax information. An analysis of IRS data shows that taxpayers' use of *e-filing* and the Internet has allowed the IRS to steadily decrease the number of automatic mailings of individual tax products.⁶

Only 8 percent of individuals who filed in Calendar Year 2009 received tax packages in the mail. More than 80 percent of individual taxpayers used a preparer or tax preparation software to prepare their tax returns in Calendar Years 2007 and 2008 and, therefore, had no need for a

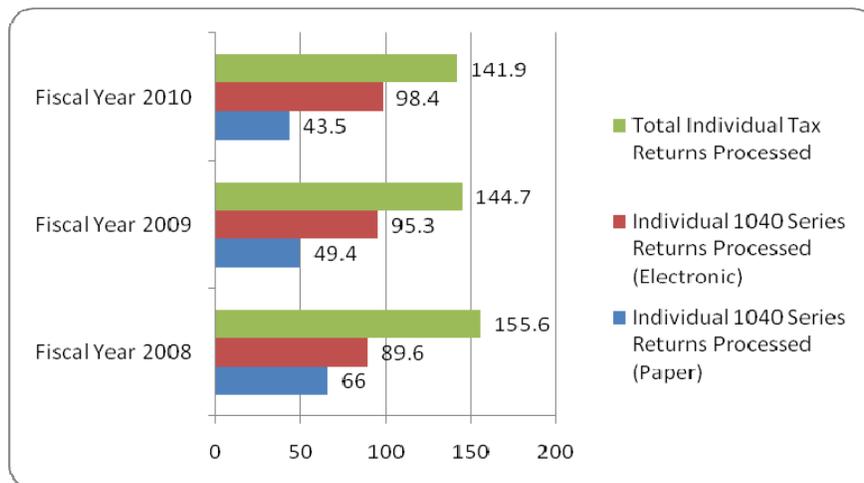
⁶ Automatic mailings include tax packages and publications that are mailed automatically in the current year because they were mailed in the prior year or the taxpayer submitted a paper tax return.



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Form 1040 tax package. In addition, the IRS reported that more than 98 million individual tax returns were *e-filed* in Fiscal Year 2010. See Figure 2 for the number of tax returns filed on paper and electronically for the last 3 fiscal years.

Figure 2: Individual Tax Returns Submitted on Paper and Electronically for Fiscal Years 2008 Through 2010 (in millions)



Source: IRS Wage and Investment Division October 26, 2010, Business Performance Review.

In addition, the IRS continues to offer more information and documents on IRS.gov. Downloads from IRS.gov have increased from 181 million in Fiscal Year 2008 to 210 million in Fiscal Year 2010.

Visits to Taxpayer Assistance Centers and orders placed for tax forms through the IRS's toll-free telephone lines have decreased

From Fiscal Years 2008 to 2010, 30 percent fewer taxpayers visited Taxpayer Assistance Centers and 28 percent fewer orders were placed through the toll-free telephone lines to obtain tax forms and publications. See Figure 3 for the number of contacts to the Taxpayer Assistance Centers and orders placed through the toll-free telephone lines for Fiscal Years 2008 through 2010.



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Figure 3: Number of Visits to Taxpayer Assistance Centers and Orders Placed Through Toll-Free Telephone Lines for Fiscal Years 2008 Through 2010 (in millions)

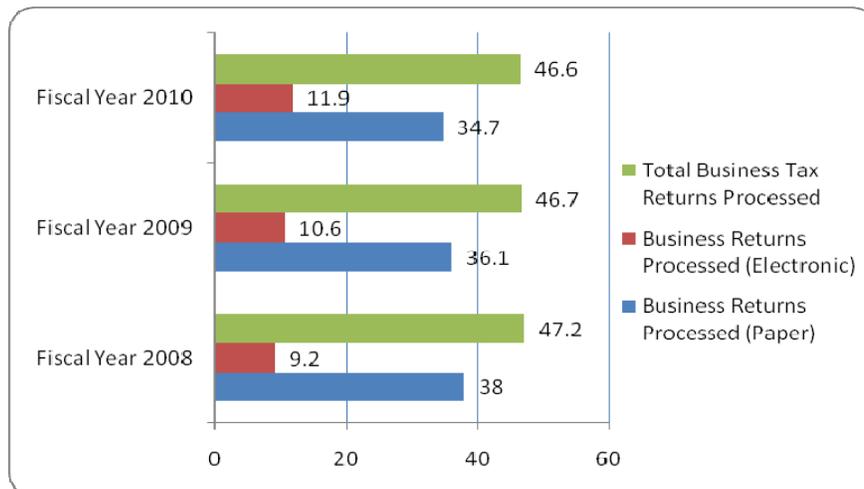
Contacts	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Percentage
Taxpayer Assistance Centers	1.0	0.8	0.7	-30%
Toll-Free Telephone Orders	2.5	2.1	1.8	-28%

Source: IRS Field Assistance Office and the Media and Publications function.

The IRS is discontinuing mailings of all Forms 1065, 1120, and 1120-S tax packages, but fewer businesses use or need hardcopy publications and forms

More than 11 million business tax returns were *e-filed* in Fiscal Year 2010. Although about 74 percent of businesses submitted their tax returns on paper, many businesses use preparers to prepare their tax returns, negating the necessity for business paper tax products. See Figure 4 for the number of business tax returns filed on paper and electronically for the last 3 fiscal years.

Figure 4: Business Tax Returns Submitted on Paper and Electronically for Fiscal Years 2008 Through 2010 (in millions)



Source: IRS Wage and Investment Division October 26, 2010, Business Performance Review.

Automatic mailings of business tax products have been declining

A review of IRS records shows that automatic mailings to small business, self-employed, and nonprofit taxpayers have declined more than 40 percent from Fiscal Years 2007 to 2010.



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Automatic mailings include 27 tax products – from reminder postcards and tax packages to publications and coupon books used to submit payments. See Figure 5 for the total automatic mailings to small business, self-employed, and nonprofit taxpayers as reported by the IRS.

**Figure 5: Automatic Mailings to Small Business, Self-Employed,
and Nonprofit Taxpayers for Fiscal Years 2007 Through 2010
(in millions)**

Fiscal Year	2007	2008	2009	2010 ⁷	
Type of Taxpayer	Mailing Quantity	Mailing Quantity	Mailing Quantity	Mailing Quantity	Percentage Decrease
Tax Exempt and Government Entities	1.6	1.0	.536	1.0	38%
Small Business/ Self-Employed	44.6	27.8	25.9	24.9	44%
Totals	46.2	28.8	26.4	25.9	44%

Source: *The Media and Publications function.*

A review of the 19 tax packages and 5 publications automatically mailed to small business, self-employed, and nonprofit taxpayers showed all are available on IRS.gov. Four tax packages and one publication are part of the Fiscal Year 2011 cost saving proposal and have been eliminated from the list of tax products automatically mailed.

Limited testing showed that most businesses and nonprofit taxpayers do not need or want to receive tax products by mail. We interviewed a sample of 25 businesses to determine their need for mailed tax products. Of the 25 businesses contacted, most did not need to receive tax packages or forms via mail from the IRS and more than one-half have called the IRS's toll-free telephone lines or visited IRS.gov.

- 23 (92 percent) did not believe that eliminating mailings of certain business tax products would affect their businesses.
- 21 (84 percent) did not believe it was necessary to receive tax packages and forms from the IRS via the mail.
- 19 (76 percent) have accessed information via IRS.gov.
- 14 (56 percent) have made calls to the IRS toll-free telephone line.
- 7 (28 percent) made visits to Taxpayer Assistance Centers.

⁷ For Fiscal Year 2010, some costs and quantities were estimates based on a 2 percent increase. The IRS was in the middle of producing products for Fiscal Year 2010 and will not have final data until late Fiscal Year 2011.



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Although electronic services, such as IRS email subscriptions,⁸ are available to businesses, tax professionals, and payers of income, few of the businesses contacted use these services. Only 3 (12 percent) of the 25 businesses contacted subscribed to the IRS email subscriptions; 6 (24 percent) were aware that this service is available. Only 1 (4 percent) business contacted did not have access to the Internet because it was located in a rural area. However, the business' accountant had access to the Internet.

Controls need to be implemented as the IRS proceeds with the Printing and Postage Budget Reduction Task Force proposals

The Printing and Postage Budget Reduction Task Force made 25 proposals to save publishing and mail costs. Fourteen of the proposals were for Fiscal Year 2011 implementation, and an additional 11 are for further development in Fiscal Year 2012 and beyond. As part of the proposal presented to IRS executives in September 2010, the Media and Publications function stated that it will monitor taxpayer behavior to gauge any negative impact on taxpayers or fiscal resources, including:

- Call volume increases.
- Changes in filing patterns.
- Changes in compliance.
- Increases in IRS.gov traffic.
- Increases in Taxpayer Assistance Center traffic.

The proposal also suggests establishing projects to identify other costs savings.

However, the Task Force proposal did not include:

- Documentation to show the methodology used to make the Task Force's proposals—what tax packages and publications were considered, how they were prioritized, etc.
- How the estimates were calculated or validated. A minor calculation error and some incomplete figures were found in the total cost of the Task Force's 14 proposals for Fiscal Year 2011.
- How the IRS will measure the results or the cost savings of the proposals.

When asked how the IRS identified or estimated the cost savings in the Fiscal Year 2011 budget request, IRS officials stated that the proposal was a starting point to identifying options for

⁸ Taxpayers may subscribe to free IRS email services that provide news releases, tax tips and information, etc. Certain subscriptions target specific populations of taxpayers, including small businesses, payroll preparers, and tax professionals. In addition, the IRS provides e-Services, a suite of web-based products that allows tax professionals and payers to conduct business with the IRS electronically.



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reducing postage costs. Therefore, they did not maintain documentation to support the estimate or the methodology used to estimate the savings, nor did they validate the data or cost savings estimate.

Controls should be in place to ensure the methodology used to identify and estimate the cost savings is documented and that all data are accurate and complete. The controls should also include creating and maintaining records to measure total cost savings and to determine the effect on taxpayers. Without these controls, the IRS cannot assure stakeholders that its proposed cost reduction efforts have been implemented, are effective, or show their effect on taxpayers.

Fragmented controls affect the IRS's ability to more effectively manage and reduce future publishing and mail costs

The IRS's long-term ability to provide stakeholders with cost savings data and efficiently respond to future budget reductions and taxpayer needs for tax information is dependent on the availability of cross-functional cost data and an effective monitoring process. The Media and Publications function funds the publishing and distribution of the majority of IRS documents. However, it does not control or own any of its products, and the administration of the publishing and postal budget crosses different IRS business units, offices, and functions.

The Task Force, which was in the process of collecting and validating data and formulating the proposals for the publishing and mail cost savings, faced numerous challenges. Final figures were not always available and the Task Force had to use estimates or outdated costs to quantify cost savings. The offices and functions that own the tax products were reluctant to make recommendations without additional analysis to determine the potential impact on taxpayers.

Consequently, the Task Force proposed only a 19 percent reduction in the automatic mailing of Form 1040 packages in Fiscal Year 2011. In addition, the Task Force recommended that the IRS only reduce some business forms and publications for the 2011 Filing Season, while allowing the offices and functions to conduct additional analysis. However, in order to meet the Fiscal Year 2011 proposed cost savings, IRS management decided to eliminate all individual tax packages and eliminate some business tax products without conducting additional analysis.

Management will continue to encounter these challenges until they develop a formal process or strategy to continually collect cost data and assess and monitor opportunities for cost reduction and efficiencies across functions. The IRS needs to implement sufficient controls and procedures to ensure the methodology for the decisions are documented and that the data used are accurate and complete. A long-term strategy should also include a plan to monitor results to ensure the IRS is achieving expected savings and not adversely affecting taxpayers or compliance.

Further, in its assessment of the IRS budget justification for Fiscal Year 2011, the Government Accountability Office recommended that the IRS provide Congress with information comparing



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projected savings to actual savings in the year following the budget's implementation.⁹ The Government Accountability Office acknowledged that this may be challenging as factors may change and data may be initially incomplete, but emphasized that without actual savings information, Congress and other stakeholders will not know whether the IRS realized all or part of the savings it projected for Fiscal Year 2011.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Establish and implement a system of internal controls to ensure that savings and cost data related to the elimination or reduction of mailing tax products are current and reliable.

Management's Response: IRS management agreed with this recommendation and has implemented it under the Postage Budget Reduction project. For direct mailing, the IRS has implemented a system to ensure that savings and cost data related to the elimination or reduction of mailing tax products are current and reliable, and plans to continue to update the data as savings are achieved. In addition, the IRS has developed a data gathering tool to capture the costs and savings. The methodology and assumptions were documented. Each initiative has an owner who is responsible for providing monthly updates. The Director, Media and Publications, Wage and Investment Division, reviews the data monthly. This process and implementation will be reviewed annually during operational reviews.

Recommendation 2: Develop a strategy to ensure that publishing and mail costs are continually evaluated. The strategy should include goals and measures, as well as steps to monitor the effect on taxpayer burden and compliance.

Management's Response: IRS management agreed with this recommendation and has developed strategies to ensure that publishing and mail costs are continually evaluated. As part of its annual program planning process, the IRS identifies the short- and long-term initiatives that it plans to implement. The Wage and Investment Division and the Small Business/Self Employed Division Research functions have developed a comprehensive strategy to measure the effect on compliance and burden for the current proposals. Their service will also be requested for all strategies that could potentially affect taxpayer burden and compliance. Goals and measures will be continually assessed as research data are available.

⁹ *Internal Revenue Service: Assessment of Budget Justification for Fiscal Year 2011 Identified Opportunities to Enhance Transparency* (GAO-10-687R, dated May 2010).



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate the IRS's efforts to reduce publishing and mail costs for tax forms and publications sent to businesses and nonprofits. To accomplish this objective, we:

- I. Evaluated IRS strategies, initiatives, and planned research studies for reducing costs.
 - A. Determined the IRS's plans to use the information obtained from the research studies and proposed project plans to eliminate certain direct mailing of business and nonprofit tax products.
 1. Determined the IRS's plans to survey businesses and nonprofits to assess the impact of eliminating certain direct mailing of tax products.
 2. Determined if the IRS had defined the demographics of businesses and nonprofit organizations.
 3. Determined the IRS's marketing strategy to inform businesses and nonprofits that it eliminated direct mailing of tax products.
 - B. Analyzed the results of the IRS's plans from Step I.A. and determined if it considered the possibility of increased taxpayer burden or the effect on tax compliance.
- II. Selected a sample of businesses to determine their needs for paper tax products. We identified the population of businesses and nonprofits that would potentially be affected.
 - A. Received data from the Business Master File¹ and the IRS that are routinely tested. We evaluated the reliability of data captured by randomly selecting five records from one file and six from the other file and researching the tax records on the Integrated Data Retrieval System.² We queried the data extract to identify the volume of businesses that filed electronically or by paper and the volume of paper filers that received a tax package from our population of 24,854,390 Business Master File records.
 - B. Interviewed a sample of 25 businesses from Step II.A. and determined their needs for access to tax products. Using the Enterprise Guide, we queried the data extract for businesses and nonprofits in the State of Georgia for Exempt Organization Business

¹ The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

² The Integrated Data Retrieval System is the IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.



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Income Tax Return (Form 990-T), U.S. Return of Partnership Income (Form 1065), U.S. Corporation Income Tax Return (Form 1120), and U.S. Income Tax Return for Cooperative Associations (Form 1120-C) for Tax Period³ 2009 only. We pulled a random sample of 25 businesses and nonprofits to determine their needs for access to tax products. We used a random sample because we were not making projections and wanted our selections to be unbiased.

- III. Analyzed the data and methodology used to estimate the \$26 million publishing and mail cost savings proposed in the IRS's Fiscal Year 2011 budget request to determine if they were accurate, if the methodology for the proposal was sound, and how the IRS will measure the actual savings, including the effect on taxpayers.

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: the IRS process used for publishing and mailing tax forms, publications, and tax packages to businesses and nonprofits. We evaluated these controls by interviewing management, conducting research, and analyzing reasons why certain tax products were printed and mailed automatically.

³ A tax period refers to each tax return filed by the taxpayer for a specific period (year or quarter) during a calendar year for each type of tax.



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Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)

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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 of Operations, Wage and Investment Division SE:W
Deputy Commissioner of Services, Wage and Investment Division SE:W
Deputy Associate Chief Information Officer, Applications Development OS:CTO:AD
Director, Compliance, Wage and Investment Division SE:W:CP
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
SE:W:CAR
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Director, Media and Publications, Wage and Investment Division SE:W:CAR:MP
Director, Research, Wage and Investment Division SE:W:PRA:R
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
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

Proposed Cost Reduction Actions Approved for Implementation

Action	Printing and Postage Budget Reduction Task Force Proposed Actions	Actions Approved
1	Send all non-required, next-day shipments by ground transportation.	Reduce the costs of administrative mail – this includes limiting next-day air shipments.
2-4	Reduce U.S. Individual Income Tax Return (Form 1040) package mailings by 19 percent; reduce page counts in Form 1040 Packages. Validate Form 1040 package mailings via postcard (assume 25 percent of postcards will be returned).	Discontinue mailings of Form 1040 packages.
5	Tailor the mailing of Estimated Tax for Individuals (Form 1040-ES) tax packages, which include vouchers.	Tailor the mailing of Form 1040-ES to drop all tax returns that were prepared by software, because printers can now print high-quality vouchers.
6	Tailor the mailing of <i>(Circular E), Employer's Tax Guide</i> (Publication 15).	Discontinue the annual mailings of Publication 15 and direct business taxpayers to IRS.gov to obtain this product. Continue to mail Publication 15 to first-time new employers.
7	Redirect U.S. Return of Partnership Income (Form 1065), U.S. Corporation Income Tax Return (Form 1120), and U.S. Income Tax Return for an S Corporation (Form 1120-S) customers to IRS.gov.	Eliminate the direct mailing of tax packages for Forms 1065, 1120, and 1120-S. These forms are available at IRS.gov and various distribution outlets. Notify affected taxpayers via postcard.
8	Redirect Federal Employment Tax Forms (Publication 393) customers to the Social Security Administration Internet site, SSA.gov.	Eliminate Publication 393 and redirect taxpayers to SSA.gov. Notify affected taxpayers via postcard.
9	Redirect Split-Interest Trust Information Return (Form 5227) customers to IRS.gov.	Eliminate Package 5227 and redirect customers to IRS.gov. Notify affected taxpayers via postcard.
10	Eliminate non-mandatory inserts in all correspondence.	Eliminate non-mandatory inserts in all correspondence.



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Action	Printing and Postage Budget Reduction Task Force Proposed Actions	Actions Approved
11	Modify procedures to avoid generating interim letters.	Require IRS employees to suppress the automated adjustment notice when it duplicates a correspondex notice (automated letters with standardized verbiage).
12	Reduce We Need Your Assistance in Updating Our Records (R U There? Letter) (Letter 2797) issuance by greater vendor research.	Reduce Letter 2797 issuance by more upfront vendor research.
13	Suppress issuance of Undeliverable Refund notice (Computer Paragraph 31)/Undeliverable Refund Check (Computer Paragraph 231) for Undeliverable as Addressed addresses.	Suppress issuance of CP-31/231 for Undeliverable as Addressed addresses.
14	Eliminate the Employer Identification Number Assignment Notice (Computer Paragraph 575) mailing for online Employer Identification Number recipients.	Eliminate CP-575 for online Employer Identification Number applicants.

Source: IRS's Printing and Postage Budget Reduction Task Force.



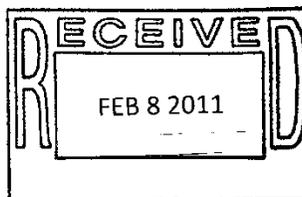
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Appendix V

Management's Response to the Draft Report

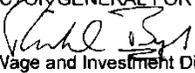


DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308



February 8, 2011

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Publishing and Mail Costs Need to Be More
Effectively Managed to Reduce Future Costs
(Audit # 201040019)

We have reviewed the subject draft report and appreciate your acknowledgement of the challenges we face as well as the work we have done to reduce the IRS's printing and postage costs. We have established controls and implemented strategies to ensure continuous reductions in publishing and mailing costs and have taken steps to implement and monitor actions in this area.

The IRS is continually striving to make the most efficient use of our limited resources. The increase in the use of electronic filing, tax preparation software, and the internet and other avenues to obtain tax forms has dramatically decreased the need of paper tax products. Your report acknowledges a number of productive steps we have taken in recent years to optimize resources, including:

- Eliminating automatic mailings to individuals who use paid preparers or tax return preparation software;
- Eliminating mailing tax packages to businesses that do not file paper tax returns;
- Streamlining ordering for partners who support distribution of paper forms;
- Decreasing freight shipment costs.

The Media and Publications (M&P) function is responsible for administering the IRS's publishing and mail budget of more than \$272 million. The M&P provides oversight to the corporate printing budget that is distributed to all IRS Business Operating Divisions. Your report does not acknowledge that the postage budget includes more than the costs of mailing tax products. As an example, it includes the costs of mailing all taxpayer correspondence, which increased 33 percent from \$120.7 million in 2007 to \$159.8 million in 2010. Because of the efficiencies we have implemented, the cost of



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printing and mailing tax products dropped from \$58.9 million in 2007 to \$36.5 million in 2010, a 38 percent decrease.

Over the past several years, we have implemented a number of efficiencies that have resulted in significant cost savings in postage. If we had not taken on initiatives to contain cost previously, the IRS postal budget would be much greater. These efficiencies have been implemented as part of a strategic approach in support of the M&P Concept of Operations (CONOPS), and are detailed annually in the Wage and Investment Operating Plan (WIOP).

As the need for paper products has declined, we systematically reduced direct mailings of tax products by establishing coding for returns to identify individual filers who use software to prepare their returns, but file them using paper. The success of that strategy led to a similar strategy implemented for business taxpayers that further trimmed the printing and postage budget. Printing contracts for the large 1040 tax package mailings were combined where possible, to increase zip code piece volumes to maximize postage discounts in presorting and delivery. Reducing printing and postage costs is not just a recent initiative for us. Since 2009, we have decreased the mailing of individual tax packages by 83 million to a little over 13 million.

The success of M&P's Notice Delivery System (NDS), which received full Certification and Accreditation status in July 2008, and the fully automated Certified Domestic Return Receipt Request initiative (more commonly referred to as the Green Card Program) that was finalized August 2008 speaks volumes about our work to reduce costs. The Green Card initiative was an outgrowth of the NDS, along with technological advancements made within the United States Postal Service. It replaced paper methodology with a more cost effective electronic one. It also allowed the IRS to automate the preparation and processing of certified mailings by reducing intensive manual labor processes at a cost of 26 staff years annually, and a cost savings of approximately \$3 million a year.

Our work at cost savings is not limited to the IRS. We were also successful in obtaining rate reductions for private delivery companies for the Department of the Treasury. This effort produced savings throughout the Department, including saving the IRS \$1 million a year.

To direct our efforts in achieving savings over the years, M&P has consistently worked within the parameters of our overall Strategic Plans, the WIOPs, and the CONOPS. The CONOPS directs M&P efforts to continue to reduce reliance on paper products to better utilize resources and reduce postage expenditures and to explore and implement "Green Initiatives" in our daily operations, as well as through the products and services that we offer. In support of these strategies, we are migrating to e-products and services to enable taxpayer self-sufficiency and preferences; reducing postage costs through product redesigns and contract methods; and developing alternative media.



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We are also continuously consulting with stakeholders to reduce costs, and ensuring that our M&P employee education inculcates our focus on cost reduction at all levels.

In addition, our executive and managerial commitments include requirements to reduce printing and postage costs that have culminated in a daily work climate and environment focused on reducing such costs. Implementing efficiencies and savings is part of the culture for all of our employees. A core responsibility of our publishing specialists is to consult with customers to help them achieve cost savings. Distribution analysts continually implement savings by optimizing postal discounts through zip code pre-sorts and delivering materials deep into the postal stream.

We also have initiatives within other areas of the Wage and Investment Division (W&I) to reduce printing and postage costs. For instance, in the WIOP, the Office of Taxpayer Correspondence (OTC) has identified that they will reduce waste and burden through initiatives such as the Social Security Number Redaction, 2D Bar Code, and Undelivered mail efforts. The OTC is also working with the Large Business and International Division, and Submission Processing to develop a robust international mail regime to increase the probability of mail reaching international taxpayers, which will reduce postage costs by reducing expenses that are related to undeliverable mail.

As your report acknowledges, in July 2010, we formed a Servicewide Printing and Postage Budget Reduction (PPBR) task force and charged them with identifying ways to reduce the printing and postage budgets, and invited the Treasury Inspector General for Tax Administration (TIGTA) to assist us in this area. Research functions from W&I and Small Business/Self Employed Division (SB/SE) assisted with determining ways to measure the impact of any cost reduction proposals. When your review began, we had just formed the PPBR team that was developing and documenting its proposals and your report shows a snapshot in time during the initial stages of this effort. However, the PPBR is an ongoing process and the team continues to identify, document, and recommend additional potential savings.

The PPBR team's initial efforts focused on identifying potential strategies so that immediate decisions could be made to realize cost savings in 2011. Faced with limited funding and critical operational needs, and based on the PPBR's initial findings, the IRS decided to eliminate tax package mailings of Forms 1040, 1065, 1120, and 1120S in FY 2011. This decision enabled the IRS to achieve significant savings with the knowledge that there were alternative, free, and easily accessible methods for taxpayers to obtain tax forms, instructions, and publications for the small percentage of taxpayers that use paper products. A comprehensive communication plan was established to inform the public of these alternatives, including a postcard that was mailed to all former paper tax package recipients to inform them of the options available. Taxpayers were notified that paper tax package would be mailed upon request. This allowed us to achieve significant savings while still providing needed service to taxpayers.



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The PPBR documented the cost savings and the methodology used to calculate them. These cost savings were contained in a chart showing the decline in tax packages in our initial PPBR proposal and were provided to the TIGTA audit team during their review. The PPBR is formally documenting efforts in this area, and we will continue to work with the IRS Research organizations within W&I and SB/SE on methods for tracking and measuring the results.

Attached are our comments to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Karen Becton-Johnson, Director of Media and Publications, Wage and Investment Division, at (202) 622-2875.

Attachment



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Attachment

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1:

Establish and implement a system of internal controls to ensure that savings and cost data related to the elimination or reduction of mailing tax products are current and reliable.

CORRECTIVE ACTION

We agree with this recommendation and it was implemented under the Postage Budget Reduction project. For direct mailing, we have implemented a system to ensure that savings and cost data related to the elimination or reduction of mailing tax products is current and reliable. We will continue to update as savings are achieved. We have developed a data gathering tool to capture the costs and savings. The methodology and assumptions are documented. Each initiative has an owner who is responsible for providing monthly updates. The Director, Media and Publication, Wage and Investment Division reviews the data monthly. This process and implementation will be reviewed annually during operational reviews.

IMPLEMENTATION DATE

Implemented and ongoing.

RESPONSIBLE OFFICIAL

Director, Media and Publications, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2:

Develop a strategy to ensure that publishing and mail costs are continually evaluated. The strategy should include goals and measures, as well as steps to monitor the affect on taxpayer burden and compliance.

CORRECTIVE ACTION

We agree with this recommendation and we have developed strategies to ensure that publishing and mail costs are continually evaluated. As part of our annual program planning process we identify the short- and long-term initiatives that we will implement. The Wage and Investment Division and the Small Business/Self Employed Division Research functions have developed a comprehensive strategy to measure the effect on compliance and burden for the current proposals. Their services will also be requested for all strategies that could potentially impact taxpayer burden and compliance. Goals and measures will be continually assessed as research data is available.



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IMPLEMENTATION DATE

Implemented and ongoing.

RESPONSIBLE OFFICIAL

Director, Media and Publications, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A