



*Additional Actions Are Needed
to Further Reduce Undeliverable Mail*

September 11, 2019

Reference Number: 2019-40-074

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HIGHLIGHTS

ADDITIONAL ACTIONS ARE NEEDED TO FURTHER REDUCE UNDELIVERABLE MAIL

Highlights

Final Report issued on September 11, 2019

Highlights of Reference Number: 2019-40-074 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

The IRS mails more than 200 million notices and letters each year to individual and business taxpayers and their representatives. When the IRS does not maintain current taxpayer addresses, it wastes postage and labor processing undeliverable mail. For example, in Fiscal Year 2018, about 14.4 million pieces of undeliverable mail were returned to the IRS at an estimated cost of \$43 million. In addition, the IRS missed opportunities to help taxpayers understand their tax obligations.

WHY TIGTA DID THE AUDIT

This audit was initiated to assess the IRS's efforts to reduce undeliverable mail and to follow up on corrective actions that the IRS planned to take to address recommendations made in TIGTA's May 2010 audit report.

WHAT TIGTA FOUND

The IRS has taken a number of actions to improve the accuracy of taxpayer addresses in its systems, thereby reducing the volume of undeliverable mail. However, the IRS closed some of TIGTA's prior recommendations as completed, yet this review identified the same deficiencies. As a result, the IRS continues to waste postage and labor by mailing and processing undeliverable correspondence.

During Fiscal Year 2018, the IRS mailed a total of 103,512 nonstatutory notices and letters to taxpayers whose tax accounts had an undelivered mail indicator. Using the IRS's estimate of \$3 per piece to process undeliverable mail, the IRS needlessly spent almost \$311,000 mailing correspondence to

known undeliverable addresses. In addition, the IRS does not always suppress correspondence to taxpayers whose address of record is an IRS campus (because the IRS cannot find a valid address). The IRS mailed more than 144,000 notices to those taxpayers during Fiscal Years 2016 through 2018 at a cost of almost \$433,000. TIGTA also found that some correspondence returned by the United States Postal Service with an updated address continued to be destroyed without updating taxpayers' accounts.

In addition, the IRS has not made sufficient progress implementing the Taxpayer Correspondence Delivery Tracking initiative, which would save between \$1.4 million and \$1.72 million annually in labor costs and about \$1.2 million annually in cost avoidance through a reduction in undeliverable mail.

Finally, address hygiene software has not been installed on the Real-Time System to perfect taxpayer addresses on the system and reduce undeliverable mail. During Fiscal Years 2016 through 2018, the IRS reported that a total of 221,373 notices issued through the Real-Time System were returned as undeliverable at an estimated cost of \$664,000.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) develop Service-wide processes and procedures to ensure that all operating divisions suppress nonstatutory notices to taxpayers that have an undelivered mail indicator on their account, suppress correspondence when a taxpayer's address of record is an IRS campus, and research and update taxpayer addresses for undeliverable mail with a United States Postal Service yellow label that provides a more current address, and 2) install and use address hygiene software to perfect taxpayer addresses on the Real-Time System.

IRS management agreed with one recommendation and partially agreed with the other. The IRS responded that procedures for processing undeliverable mail vary according to the specific correspondence, its priority, and how it was sent. The IRS plans to review its procedures to determine the feasibility of researching for a better address.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 11, 2019

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Additional Actions Are Needed to Further Reduce
Undeliverable Mail (Audit # 201840015)

This report presents the results of our review to assess the Internal Revenue Service's (IRS) efforts to reduce undeliverable mail. This audit is included in our Fiscal Year 2019 Annual Audit Plan and addresses the major management challenge of Achieving Program Efficiencies and Cost Savings.

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. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).



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Abbreviations

FY	Fiscal Year
IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
RCEO	Refundable Credits Examination Operations
RTS	Real-Time System
TCDT	Taxpayer Correspondence Delivery Tracking
TIGTA	Treasury Inspector General for Tax Administration
UD	Undelivered
USPS	United States Postal Service
UWR	Unified Work Request



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Background

The Internal Revenue Service (IRS) mails more than 200 million notices and letters each year to individual and business taxpayers and their representatives. A majority of the IRS's systems from which correspondence is issued use the taxpayer's address on the Master File.¹ The IRS refers to this as the taxpayer's address of record. The taxpayer's address of record is the address the IRS uses when specific notifications are required to be sent to a taxpayer's "last known address." Usually, the last known address is the address on the taxpayer's most recently filed and processed tax return,² unless the taxpayer has notified the IRS of a different address. The IRS updates a taxpayer's address of record when:

- A taxpayer files a tax return with a new address. As part of the processing of the tax return, the taxpayer's address is updated with the new address listed on the tax return.
- The taxpayer mails the IRS Form 8822, *Change of Address*, or a written, signed statement informing the IRS that the taxpayer's address has changed. The taxpayer must provide the new address; full name; old address; and Social Security Number, Individual Taxpayer Identification Number³ (ITIN), or Employer Identification Number.
- The taxpayer, when talking with an IRS employee in person or by telephone, requests an address change. IRS employees update the taxpayer's address if the taxpayer provides a new address; full name; old address; and Social Security Number, ITIN, or Employer Identification Number. Before changing the address, the employee must authenticate the taxpayer's identity and inform them that the new address will be used for all purposes.
- The taxpayer responds to an IRS notice, remittance document, or IRS-generated correspondence that is returned to the IRS with corrections made by the taxpayer to the address information listed on the correspondence.
- The United States Postal Service (USPS) sends a new address to the IRS through weekly updates from the National Change of Address database. This database has address changes that individuals and businesses provide to the USPS.
- The USPS returns undeliverable mail to the IRS with a USPS yellow label affixed to the envelope. This label often provides the most current address that the USPS has for the

¹ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

² A tax return is generally considered properly processed after a 45-day processing period that begins the day after the IRS receives the return.

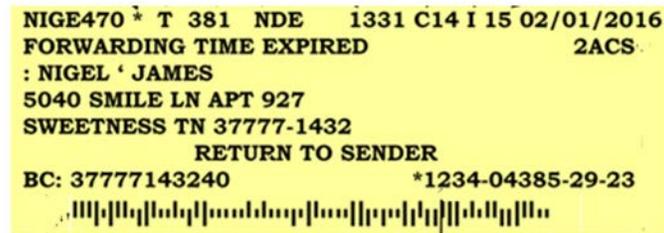
³ An ITIN is a tax processing number issued by the IRS to individuals who do not have, and are not eligible to obtain, a Social Security Number.



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taxpayer based on change-of-address requests. Figure 1 shows an example of a generic USPS yellow label.

Figure 1: Example of a USPS Yellow Label



Source: The USPS. The name and address on this label are fictitious.

Processing undeliverable mail

During Fiscal Year⁴ (FY) 2018, the IRS reported that about 14.4 million pieces of undeliverable mail were returned. The IRS estimates that the cost per piece of undeliverable mail is \$3 (postage and processing) resulting in an estimated total cost of undeliverable mail of \$43 million. The USPS returns undeliverable mail to one of the IRS's five Submission Processing Centers⁵ or one of its five Campus Support functions⁶ (collectively referred to as campuses⁷ in this report). When undelivered mail is received, it is date-stamped, counted, and routed to the issuing function or destroyed as classified waste.⁸

Mail returned as undeliverable can result from taxpayers moving without providing their forwarding addresses to the USPS, or the IRS not having an accurate address in its systems because the taxpayer provided either an inaccurate address or an IRS employee input the taxpayer's address incorrectly into a computer system. The USPS reports that more than 70 percent of Undeliverable-As-Addressed⁹ mail results from an individual moving. If a taxpayer filed a change of address request with the USPS, the USPS will affix a yellow label to the envelope, which often provides the taxpayer's new address. Generally, undeliverable mail

⁴ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

⁵ The five active Submission Processing Sites are in Fresno, California; Kansas City, Missouri; Cincinnati, Ohio; Austin, Texas; and Ogden, Utah.

⁶ The campus support sites are Atlanta, Georgia; Andover, Massachusetts; Brookhaven, New York; Philadelphia, Pennsylvania; and Memphis, Tennessee.

⁷ 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.

⁸ Classified waste is documentation with taxpayer entity or account information not needed for audit trail purposes.

⁹ 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.



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pieces are returned to the sender. Figure 2 shows the IRS's total mail and undeliverable mail for FYs 2016 through 2018.

Figure 2: The IRS's Total Mail and Undeliverable Mail for FYs 2016 Through 2018¹⁰

Fiscal Year	Total Mail	Total Undeliverable Mail	Undeliverable Mail Rate
2016	214,790,113	16,333,688	7.6%
2017	205,475,984	14,825,926	7.2%
2018	219,690,460	14,429,099	6.6%

Source: IRS Outgoing and Undeliverable Mail Counts.

This review was performed at the IRS campuses in Atlanta, Georgia, and Austin, Texas, during the period May 2018 through June 2019. 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.

¹⁰ At the direction of the IRS, the USPS destroys all tax forms, instructions, and publications that it cannot deliver and does not track the volume associated with these destroyed mail pieces.



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Results of Review

Since our prior review,¹¹ the IRS has taken a number of actions to improve the accuracy of taxpayer addresses in its systems, thereby reducing the volume of undeliverable mail. These actions include:

- Updating procedures to allow taxpayers to change their address when speaking with toll-free telephone assistors.
- Redesigning notices to include space on response forms for taxpayers to indicate an address change and enabling the taxpayer to provide their new address. Internal guidelines were also updated to authorize employees to update addresses when taxpayers respond to IRS correspondence.
- Installing address hygiene software on most systems from which correspondence is issued. The hygiene software uses USPS standard abbreviations and spellings and assigns the full ZIP code to align the addresses with USPS-recognized locations for domestic mail delivery. The below example shows how hygiene software updates an address on a system to comply with the USPS's standard address format.
 - *Address before hygiene software* – 35 Northwest Pennsylvania Avenue, Chance, Ohio, 12345.
 - *Address after hygiene software* – 35 NW Pennsylvania Ave., Chance, OH, 12345-6789

Although a number of actions have been taken, we also identified that the IRS closed some of our prior recommendations as completed, yet our current review identified the same deficiencies. As a result, the IRS continues to waste resources mailing and processing undeliverable correspondence to taxpayers.

Actions Were Not Taken to Suppress Notices to Taxpayers With a Known Bad Address or to Update Taxpayer Addresses When Notifications Are Received From the Postal Service

Our review identified that the IRS continues to mail correspondence to taxpayers that have an Undelivered¹² (UD) mail indicator on their tax account. For example, in FY 2018, the IRS

¹¹ Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2010-40-055, *Current Practices are Preventing a Reduction in the Volume of Undeliverable Mail* (May 2010).

¹² An indicator on the Master File depicting an inaccurate address. The USPS notifies the IRS that a delivery attempt has failed.



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mailed 103,512 nonstatutory notices¹³ and letters to 44,672 taxpayers whose accounts had a UD mail indicator. Using the IRS's estimate of \$3 per piece to process undeliverable mail, the IRS needlessly spent almost \$311,000¹⁴ mailing this correspondence to known undeliverable addresses.

The UD mail indicator was developed in response to a recommendation we made in our May 2010 report. We recommended that the Commissioner, Wage and Investment Division, develop procedures to place markers on taxpayers' accounts that have a known bad address *and suspend all nonstatutory notices to those taxpayers*. The IRS agreed with this recommendation. On February 25, 2010, Submission Processing management submitted a Unified Work Request (UWR) to the Information Technology organization to place UD mail indicators on the accounts of taxpayers identified as having a bad address. Although the programming resulted in a UD mail indicator being placed on tax accounts, the UWR did not include programming to suppress the issuance of nonstatutory notices associated with those accounts with a UD mail indicator. As a result, nonstatutory notices are not suppressed.

When we discussed the nonstatutory notices that are not being suppressed with Submission Processing management, they indicated that they were under the impression that adding a UD mail indicator to the accounts would result in suppression of notices. Of additional concern is that Submission Processing management stated that other IRS functions that issue correspondence to taxpayers would need to prepare their own UWRs to suppress notices that their functions issue to taxpayers whose accounts have a UD mail indicator. We confirmed that not all of the functions that issue nonstatutory notices to taxpayers submitted the required UWR.

Correspondence is not always suppressed for taxpayers whose address of record is an IRS campus

Our review also identified that the IRS does not suppress the mailing of most correspondence to taxpayers whose address of record is an IRS campus. For example, some taxpayers file their return without providing their address on the return. If the IRS cannot find a good address for those taxpayers, including cases that involve identity theft, internal procedures require employees to update the taxpayer's account with a campus address. As of May 24, 2018, there were nearly 1.2 million tax accounts for which the address of record was an IRS campus. The IRS mailed more than 144,000 notices to those taxpayers during FYs 2016 through 2018, at a total cost of almost \$433,000.¹⁵ Figure 3 shows the number of notices mailed by fiscal year.

¹³ Nonstatutory notices and letters are not required by law or statute to be mailed to taxpayers, unlike statutory notices that are required to be mailed by formal law or statute.

¹⁴ (\$3 x 103,512 = \$310,536, rounded to \$311,000).

¹⁵ (\$3 x 144,277 = \$432,831, rounded to \$433,000).



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**Figure 3: Volume of Notices Mailed to Taxpayers
Whose Address of Record Was an IRS Campus**

Fiscal Year	Number of Notices
2016	60,711
2017	49,793
2018	33,773
Total	144,277

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of the Individual Master File.

We raised this same issue in our May 2010 report, noting that our analysis of the Master File identified 11,200 taxpayer accounts for which an IRS campus address was listed as the taxpayer's address of record. Since our prior report was issued, IRS functional areas have continued using this process, and the number of tax accounts with campus addresses has grown significantly. Submission Processing management stated that the IRS's resource constraints and other priorities prevented them from addressing this deficiency.

Some correspondence returned by the USPS with an updated address is destroyed without updating taxpayer accounts as applicable

IRS functions continue to not always research taxpayer addresses when the USPS returns undeliverable mail with an updated address for the taxpayer. On October 3, 2018, we reviewed¹⁶ a judgmental sample¹⁷ of 50 undeliverable notices for which the USPS provided a yellow label yet Accounts Management Campus Support function employees in the Atlanta, Georgia, campus sent the correspondence for destruction. We found that the yellow label address on 18 (36 percent) of the 50 notices provided a more current updated address for the taxpayer, but the IRS did not update the taxpayer's account with this address. The addresses for the 18 taxpayers were not updated to the taxpayers' account because the functional areas that issued the correspondence directed the Accounts Management Campus Support function to destroy all returned undeliverable mail issued by their function, even if the USPS returns the mail with a yellow label providing an updated address for the taxpayer.

The lack of procedures to review all correspondence returned with a USPS yellow label for a better address is the same condition we reported in May 2010. We recommended that the IRS develop standardized procedures to ensure that the keep/burn list is consistent for all campuses and revise IRS guidelines to ensure that employees do not destroy undeliverable mail when an updated address is provided on a USPS yellow label. The Commissioner, Wage and Investment

¹⁶ We reviewed IRS systems and the Consolidated Lead Evaluation and Reporting system, which is software used to locate the most recent information associated with a person or business, such as address and phone information.

¹⁷ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.



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Division, agreed with our recommendation. However, IRS management determined that processing undeliverable mail is a low priority, and budget constraints hindered additional work in this area. Thus, management closed the recommendation in the Joint Audit Management Enterprise System¹⁸ as completed. Our testing in this review identified that this correspondence is often still being destroyed.

Functional area employees still do not consistently use USPS yellow label addresses to update taxpayer accounts when applicable

Functional areas that process returned undeliverable mail with a USPS yellow label are not consistently updating taxpayer addresses. For example, internal procedures for the Automated Collection System Support and the Compliance Services Collection Operations functions require employees to update the taxpayer's address on the Master File when the yellow label address provides an accurate forwarding address. However, the Accounts Management, Notice Review, and Refundable Credits Examination Operations (RCEO) functions do not update taxpayer addresses when the USPS returns undeliverable mail with a yellow label providing a more current address for the taxpayer.

Our review¹⁹ of a judgmental sample of 151 undeliverable notices²⁰ with the USPS yellow label identified for routing to the Accounts Management, Notice Review, and RCEO functions from October 3, 2018, through October 30, 2018, identified 86 (57 percent) with yellow labels that provided a more current address for taxpayers. However, the IRS did not update the taxpayers' accounts with this address. The taxpayers' accounts were not updated because USPS yellow label research and address update procedures are inconsistent throughout IRS functions. For example, if Automated Collection System and Compliance Services Collection Operations function employees are reasonably assured that research has identified the most current address, their procedures require them to update the taxpayer's address of record. However, internal guidelines for employees in the Accounts Management, RCEO, and Notice Review functions instruct employees to not update the taxpayer's address, regardless of the results of research. Internal procedures for the Accounts Management function require employees to use the address on the yellow label to correspond with the taxpayer to verify the address, and employees in the RCEO function return the undeliverable mail to the taxpayer at the address on the yellow label. Employees in both of these functions include Form 8822 with the correspondence.

In our May 2010 report, we reported the IRS's inconsistent research and update of addresses based on USPS yellow labels. We recommended that the IRS develop standardized procedures for processing undeliverable mail for all IRS functional offices. The Commissioner, Wage and

¹⁸ The Department of the Treasury tracks the status of its bureaus' corrective actions addressing audit recommendations through the Joint Audit Management Enterprise System.

¹⁹ We reviewed IRS systems and the Consolidated Lead Evaluation and Reporting system.

²⁰ TIGTA sampled 151 pieces of taxpayer undeliverable mail (Notice Review (51), Accounts Management (50), and RCEO (50)).



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Investment Division, agreed with our recommendation, and in November 2011, IRS management closed this recommendation as completed. However, as this review identified, actions were not taken to standardize procedures Service-wide for the review and update of taxpayer addresses based on USPS yellow labels.

IRS management is required to implement controls to avoid wasting resources and to provide quality taxpayer service. This includes suppressing notices to taxpayers with known undeliverable addresses and ensuring that employees make reasonable attempts to identify the taxpayer's address for mailing correspondence. However, as we previously stated, management determined that processing undeliverable mail is a low priority, and budget constraints hindered additional work in this area. When the IRS does not maintain current taxpayer addresses on the Master File, it wastes postage and labor processing undeliverable mail. In addition, the opportunities for collecting tax revenues and helping taxpayers understand their tax obligations are reduced.

Recommendation

Recommendation 1: The Deputy Commissioner for Services and Enforcement should develop Service-wide processes and procedures to ensure that all operating divisions:

- Suppress the issuance of nonstatutory notices to taxpayers that have a UD mail indicator on their account.
- Suppress the issuance of correspondence when a taxpayer's address of record is an IRS campus.
- Research and update taxpayer addresses for which the USPS returns undeliverable mail with a yellow label that provides a more current address.

Management's Response: The IRS partially agreed with this recommendation. IRS management plans to request programming changes to systemically suppress the issuance of nonstatutory systemic notices to taxpayers with UD mail indicators on their accounts or where the address of record is that of an IRS campus, unless there is a business reason to exclude the notice from suppression. Management stated that they would request programming changes at the earliest opportunity in January 2021. However, Information Technology resources are subject to the availability of funds and competing priorities for these limited resources. Management also stated that procedures for processing undeliverable mail vary according to the specific correspondence, its priority, and how it was sent (regular mail, registered, *etc.*). The priority of the notice or letter is a major factor in undeliverable mail procedures. However, management plans to review their procedures in conjunction with the memo from IRS Counsel, dated 2012, to determine the feasibility of researching for a better address and changing addresses after the IRS performs research and is reasonably confident that the individual or entity is the taxpayer in question. The IRS also plans to develop and issue, by July 2020, a Service-wide



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policy on researching and updating addresses when correspondence is returned with a yellow label affixed.

Office of Audit Comment: The IRS's plans to review its procedures and issue a Service-wide policy on researching and updating addresses when correspondence is returned with a yellow label satisfies our recommendation.

Sufficient Progress Has Not Been Made to Implement the Taxpayer Correspondence Delivery Tracking Initiative

Our review identified that the IRS has not made sufficient progress to improve its correspondence processes in an attempt to further reduce the volume of undeliverable mail and to provide the same services that taxpayers receive from other organizations. For example, the IRS has not implemented the Taxpayer Correspondence Delivery Tracking (TCDT) initiative, which would provide the IRS with additional USPS services to help track the delivery of outgoing and incoming taxpayer correspondence and ultimately reduce the volume of undeliverable mail.

Benefits of the TCDT initiative would include:

- Updates to taxpayer addresses of record.
- Daily reports of delivery and nondelivery information for each piece of mail. The IRS could then identify undeliverable addresses and research potential addresses more timely. This process would improve subsequent mail delivery by accelerating IRS actions to correct undeliverable addresses using early electronic data rather than later physical mail.
- Secure destruction of undeliverable mail by the USPS. This would eliminate IRS labor expended on undeliverable mail handling.
- Compiling and providing information to subscribing business units on their incoming correspondence, including remittances, which use courtesy reply stubs.

The Wage and Investment Division's Customer Assistance, Relationships, and Education function submitted the TCDT initiative for FYs 2018 and 2019 funding approval. Although management stated that it will take two years to implement the TCDT initiative, funding for only the first year was approved as of April 2019. The IRS estimates that the TCDT initiative will cost a total of \$3.4 million, with \$2.1 million of those costs occurring in the first year of implementation. However, in return, the IRS estimates saving between \$1.4 million and \$1.72 million annually in labor costs. In addition, the initiative would save about \$1.2 million annually through a reduction in subsequent undeliverable mail due to address updates.

Delays implementing this initiative will result in the IRS continuing to mail correspondence to inaccurate addresses and wasting resources handling the subsequent receipts of undeliverable mail. Moreover, the delays in obtaining the USPS services that the IRS would gain from the TCDT initiative hinders the IRS from enforcing the tax laws and collecting tax revenue.



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Taxpayers will also experience a burden when they do not receive IRS correspondence, which could result in erroneous balance due notices, collection activity, and delayed refunds.

Address Hygiene Software Has Still Not Been Installed on the Real-Time System, Which Issues a Significant Number of Notices

Address hygiene software is not being used in an effort to perfect taxpayer addresses on the Real-Time System (RTS). The RTS is for ITIN application submission, ITIN application processing, ITIN issuance, and ITIN administration. Individuals who do not have, and are not eligible to obtain, a Social Security Number but have a tax return filing requirement request an ITIN to file their tax return. During FYs 2016 through 2018, the IRS reported that a total of 221,373 notices issued through the RTS were returned undeliverable. Using the IRS's estimate of \$3 to process an undeliverable notice, the ITIN Program spent more than \$664,000 processing the more than 221,000 undeliverable notices.²¹ However, the total number of undeliverable notices issued by the RTS could be significantly higher as the ITIN Program did not include in its count the number of undeliverable mail pieces without a yellow label in FYs 2017 and 2018. Figure 4 provides the volume of undeliverable mail counted after FY 2016.

Figure 4: Volume of Undeliverable Mail for FYs 2016 Through 2018

Fiscal Year	Volume of Mail
2016	115,335
2017	59,406
2018	46,632
Total	221,373

Source: IRS Receipt and Control function reports.

IRS functions should install and use address hygiene software (primarily FINALIST) on correspondence systems to perfect taxpayer addresses in conformance with USPS formatting standards in an effort to reduce the volume of undeliverable mail. In our May 2010 report, we recommended, and the IRS agreed, that hygiene software should be used on correspondence systems to ensure that all outgoing correspondence has an accurate, complete taxpayer address. In response, IRS management submitted UWRs for system enhancements, noting that completion of the necessary programming would be subject to funding and resource prioritization by the Information Technology organization.

IRS management closed our prior recommendation as completed, again citing budget constraints and the higher priority of other information technology projects. Management stated that it

²¹ (\$3 x 221,373 = \$664,119, rounded to \$664,000).



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implemented address hygiene software in a limited number of systems, including the Master File, and that implementing the software on all systems would be cost prohibitive considering its plan to expand Taxpayer Digital Communications,²² which is expected to eliminate the need for a substantial volume of correspondence. However, the significant costs of issuing undeliverable mail each year from the RTS warrants installing address hygiene software on this system.

Recommendation

Recommendation 2: The Commissioner, Wage and Investment Division, should install and use hygiene software to perfect taxpayer addresses on the ITIN RTS system.

Management's Response: The IRS agreed with this recommendation and has submitted a programming request for a single enterprise address hygiene solution supporting both domestic and foreign addresses in the mainframe and non-mainframe environments. This action will identify the options available for integrating address hygiene software within the ITIN RTS system and the necessary actions to complete the integration. If a viable solution is identified, IRS management will submit a subsequent request to implement the programming changes when the requirements are known. This action is dependent on the determination of solutions for applying address hygiene software to the RTS and is subject to limited Information Technology resources such as funding constraints and competing priorities.

²² The ability to provide taxpayer contact through all approved channels. The future vision includes the improved ability to receive inbound contact through mobile, e-mail, website, mail, and phone channels; provide self-service options for simple, standard, and large volume customer interactions; prevent unauthorized access; provide specialized access to disabled and special needs customers; and provide options for switching communication to other channels.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess the IRS's efforts to reduce undeliverable mail. To accomplish this objective, we:

- I. Evaluated the IRS's current practices and procedures for processing undeliverable mail.
 - A. Reviewed IRS procedures for processing undeliverable mail, including procedures for employees in the mailroom and in IRS functions that receive undeliverable mail.
 - B. Researched USPS procedures for returning undeliverable mail and how undeliverable mail is marked (*e.g.*, no street, no mailbox, recipient not at address).
 - C. Performed a walkthrough at the Austin Submission Processing Site and Atlanta Campus Support function to observe the actions taken by the mailroom to process and measure the undeliverable mail as well as the actions taken by those functions receiving the undeliverable mail.
 - D. Determined whether the IRS is effectively using the yellow label address to update the Master File¹ address when appropriate.
 1. Reviewed IRS procedures regarding updating Master File addresses using the USPS yellow label.
 2. Assessed IRS functions' processing of undeliverable mail with yellow labels.
 - a) Obtained a judgmental sample of 151 undeliverable notices² with yellow labels that Campus Support function employees in the Atlanta, Georgia, and Austin, Texas, Campuses identified for routing to the Accounts Management, Notice Review, and RCEO functions from October 3 through October 30, 2018. We also obtained a judgmental sample of 50 undeliverable notices for which the USPS provided a yellow label yet Campus Support function employees in the Atlanta, Georgia, campus sent the correspondence for destruction.

¹ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

² TIGTA sampled 151 pieces of taxpayer undeliverable mail (Notice Review (51), Accounts Management (50), and RCEO (50)). We used a judgmental sample because we did not intend to project the results of our test to a population of notices.



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- b) Researched the Integrated Data Retrieval System³ for each yellow label to determine if the yellow label provided a more current address than the address on the Master File.
- II. Assessed the accuracy of the IRS's reported decrease in undeliverable mail.
- A. Identified the total volume of letters and notices issued to individual and business taxpayers for FYs⁴ 2016 through 2018 and the amount of undeliverable mail.
 - B. Identified the volume of undeliverable mail received by each Submission Processing site and Campus Support function for FYs 2015 through 2017.
 - C. Verified the decrease in undeliverable mail reported by the IRS from FYs 2015 through 2017 by reviewing the volume of undeliverable mail reported by each of the IRS Submission Processing sites and campuses.
- III. Evaluated the IRS's efforts to reduce the volume of undeliverable mail, including the use of new applications and best practices.
- A. Followed up on the status of TIGTA's prior recommendation⁵ to place a UD mail indicator on taxpayer accounts to prevent the issuance of correspondence to known bad addresses.
 - 1. Requested an Individual Master File Fixed Entity⁶ data extract of taxpayer accounts with the UD mail indicator.
 - 2. Determined how many accounts currently have the UD mail indicator.
 - 3. Verified that when a new taxpayer address is posted, the UD mail indicator associated with the previous address is dropped from the account.
 - 4. Determined which IRS correspondence systems use the UD mail indicator to suppress nonstatutory correspondence.
 - 5. Interviewed management to determine why the IRS is not using the UD mail indicator to suppress nonstatutory correspondence.
 - B. Assessed the IRS's current use of hygiene software to perfect address information.

³ IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

⁴ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends September 30.

⁵ TIGTA, Ref. No. 2010-40-055, *Current Practices are Preventing a Reduction in the Volume of Undeliverable Mail* (May 2010).

⁶ The Individual Master File Fixed Entity table contains Master File descriptive data on individual taxpayers. Each taxpayer has a single entry in this table, and that entry is updated with the most recent filing information.



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1. Followed up on TIGTA's prior recommendation to integrate address hygiene software to perfect address information.
 2. Interviewed management to determine why address hygiene software was not installed on the RTS.
- C. Assessed the IRS's implementation of the TCDT initiative.
1. Determined the status of the initiative and reasons for the IRS's delayed implementation.
 2. Determined the effect on IRS processes over undeliverable mail due to the initiative not being implemented.
- D. Assessed the IRS's current policy of corresponding with taxpayers using a campus address or a Submission Processing site address.
1. Researched current procedures for processing tax accounts with a campus address or a Submission Processing site address.
 2. Using the Individual Master File Fixed Entity data extract, determined how many current taxpayer accounts have a campus address or a Submission Processing site address.

Data validation methodology

During this review, we obtained extracts from the IRS's Individual Master File Fixed Entity and Notice Delivery System⁷ databases that were available on the IRS's Compliance Data Warehouse.⁸ Before relying on the data, we ensured that each field contained the specific data elements we requested. In addition, we selected random samples of each extract and verified that the data in the extracts were the same as the data captured in the IRS's Integrated Data Retrieval System. We also performed analysis to ensure the validity and reasonableness of our data, such as ranges of values in pertinent fields for testing. Based on the results of our testing, we believe that the data used in our review were reliable.

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 that the following internal controls were relevant to our audit objective: the processes and procedures for

⁷ The Notice Delivery System contains taxpayer notice data. It includes information that uniquely identifies a notice including physical stations for assembling and details about duplicate/culls during the printing process.

⁸ The Compliance Data Warehouse provides access to a wide variety of tax return, enforcement, compliance, and other data to support the query and analysis needs of the research community.



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monitoring and reducing undeliverable mail volumes and the processes and procedures for the National Change of Address process. We evaluated these controls by interviewing IRS management, reviewing IRS procedures, and analyzing taxpayer tax accounts.



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Appendix II

Major Contributors to This Report

Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services)
W. Allen Gray, Director
Paula Johnson, Audit Manager
Van Warmke, Acting Audit Manager
Ngan Tang, Lead Auditor
Kathy Coote, Auditor
Audrey Graper, Auditor
Edgar Moon, Auditor



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Appendix III

Report Distribution List

Deputy Commissioner for Services and Enforcement
Commissioner, Wage and Investment Division
Deputy Commissioner, Wage and Investment Division
Director, Accounts Management
Director, Customer Assistance, Relationships, and Education
Director, Return Integrity and Compliance Services
Director, Submission Processing
Director, Enterprise Audit Management



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Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Potential; \$743,367 in unnecessary expenses incurred to process undeliverable mail (see page 4).

Methodology Used to Measure the Reported Benefit:

During FY¹ 2018, the IRS mailed 103,512 nonstatutory notices and letters to 44,672 taxpayers whose tax accounts had a UD mail indicator. Using the IRS's estimate of \$3 per piece to process undeliverable mail, the IRS needlessly spent \$310,536 mailing this correspondence to a known undeliverable address. To obtain these results, we analyzed Individual Master File² tax accounts with a UD mail indicator and matched those results to the Notice Delivery System table to identify tax accounts for which a notice or letter was mailed and returned as undeliverable.

During FYs 2016 through 2018, the IRS mailed 144,277 notices that were returned as undeliverable to taxpayers whose address of record was an IRS campus. Using the IRS's estimate of \$3 per piece to process undeliverable mail, the total cost of processing these notices was \$432,831. We analyzed Individual Master File tax accounts with an IRS campus address to determine tax accounts for which a notice was mailed and returned as undeliverable.

We estimated that the IRS incurred \$743,367 (\$310,536 + \$432,831) in unnecessary expenses to process undeliverable mail.

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Potential; \$664,119 in unnecessary expenses incurred to process undeliverable mail (see page 10).

¹ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends September 30.

² The IRS database that maintains transactions or records of individual tax accounts.



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Methodology Used to Measure the Reported Benefit:

During FYs 2016 through 2018, the IRS issued 221,373 notices through the RTS that were returned as undeliverable. Using the IRS's estimate of \$3 to process an undeliverable notice, the ITIN Program spent \$664,119 processing these notices. We used IRS reports to determine the volume of notices.



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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

AUG 22 2019

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin 
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Additional Actions Are Needed to Further
Reduce Undeliverable Mail (Audit # 201840015)

Thank you for the opportunity to review and comment on the subject draft report. We appreciate your acknowledgement of our achievements in improving the accuracy of taxpayer addresses in our systems and in reducing the volume of undeliverable mail. Since the previous review of undeliverable mail in 2010¹, the corrective actions we implemented have decreased undeliverable mail receipts by 25 percent, down from 19.3 million pieces in fiscal year 2009 to 14.4 million pieces in fiscal year 2018. That equates to a 26 percent reduction in estimated processing costs, from \$57.9 million in 2019 to \$43 million in 2018. We anticipate further significant reductions in the volume of undeliverable mail receipts and associated handling costs with the implementation of the Taxpayer Correspondence Delivery Tracking (TCDT) initiative, for which first-year funding was recently approved in April 2019.

The TCDT system uses United States Postal Service (USPS) mail distribution data for better delivery, control and reduction of undeliverable mail. This will be a significant initiative that we expect to reduce the volume of undeliverable mail by approximately eight percent annually, with a corresponding reduction of handling costs of about \$2.7 million per year. We plan to have the TCDT system implemented by August 2020, with full business use by mid-to-late 2021. The TCDT will complement other improvements we have made since the last report, including expanding options available to taxpayers for updating their addresses with us, receiving weekly updates from the postal service's National Change of Address database, and updating records from the USPS Yellow Label notification affixed to returned correspondence.

¹ Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2010-40-055, Current Practices are Preventing a Reduction in the Volume of Undeliverable Mail (May 2010).



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It is important to note that correspondence mailed by the IRS each year includes notices that are required by the Internal Revenue Code to be mailed to the taxpayers' address of record, which is the last known address as recorded on the Individual Master File or the Business Master File. Although the recommendations in this report focus on non-statutory notices, we are also taking steps to further improve the success rate for delivery of notices and other correspondence to taxpayers. As part of the IRS Integrated Modernization Business Plan, we are working to deploy the first release of the Taxpayer Digital Communications Outbound Notifications (TDC-ON) initiative, which provides a web-based platform for taxpayers to receive online notifications (e.g., tax credit qualifications, balance due) relevant to their tax accounts. As it is implemented, TDC-ON will speed up notice delivery and reduce the costs of mailing notices. Ultimately, this technology will provide a more convenient taxpayer option to receive information from the IRS and will result in significant cost savings in government postage and printing.

We agree with the report's monetary outcome measures; however, we disagree with the statement that our Accounts Management, Notice Review, and Refundable Credits Examination Operations functions do not update taxpayer addresses when the USPS returns undeliverable mail with a yellow label. These functions do have procedures for updating taxpayer addresses after researching available information that includes the yellow label. This observation was based on a judgmental sample of returned correspondence at a non-Submission Processing Center campus location, where the undeliverable mail items would have been locally generated. Most correspondence generated by our systems are sent with the return addresses of Submission Processing Center campuses and is processed pursuant to instructions provided by the originating business function. We will establish a Service-wide policy that will provide uniformity to the handling of returned undeliverable mail.

Attached are our comments and proposed actions to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Dietra Grant, Director, Customer Assistance, Relationship and Education, Wage and Investment Division, at (470) 639-3443.

Attachment



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Attachment

Recommendations

RECOMMENDATION 1

The Deputy Commissioner for Services and Enforcement should develop Service-wide processes and procedures to ensure that all operating divisions:

- Suppress the issuance of nonstatutory notices to taxpayers that have a UD mail indicator on their account.
- Suppress the issuance of correspondence when a taxpayer's address of record is an IRS campus.
- Research and update taxpayer addresses for which the USPS returns undeliverable mail with a yellow label that provides a more current address.

CORRECTIVE ACTION

We partially agree with these recommendations. Programming changes will be requested to systemically suppress the issuance of non-statutory systemic notices to taxpayers with undeliverable mail indicators on their accounts or where the address of record is that of an IRS campus, unless there is a business reason to exclude the notice from suppression. We will request the programming changes be implemented at the next earliest opportunity, in January 2021; however, Information Technology resources are subject to constraints such as availability of funds and competing priorities for these limited resources. Therefore, we cannot provide an implementation date for the requested change. Procedures for processing undeliverable mail vary according to the specific correspondence, its priority, and how it was sent (regular mail, registered, etc.). The priority of the notice or letter is a major factor in undeliverable mail procedures. We will review our current IRM procedures in conjunction with the memo from IRS Counsel, dated 2012, to determine the feasibility of researching for a better address and changing addresses after the IRS performs research and is reasonably confident that the individual or entity is the taxpayer in question. The IRS will also develop and issue a Service-wide policy on researching and updating addresses when correspondence is returned with a yellow label affixed by July 2020.

IMPLEMENTATION DATE

Action 1, Programming change – N/A
Action 2, Policy Communication – July 2020

RESPONSIBLE OFFICIAL

Director, Customer Assistance, Relationships and Education, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

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



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RECOMMENDATION 2

The Commissioner, Wage and Investment Division, should install and use hygiene software to perfect taxpayer addresses on the ITIN RTS system.

CORRECTIVE ACTION

We agree with this recommendation. Unified Work Request (UWR) 228026 has been submitted, requesting a single enterprise address hygiene solution supporting both domestic and foreign addresses in the mainframe and non-mainframe environments. This action will identify the options available for integrating address hygiene software within the Individual Taxpayer Identification Number Real Time System (RTS) and the necessary actions to complete the integration. If a viable solution is identified, a subsequent UWR will be submitted to implement the programming changes when the requirements are known. This action is dependent on the determination of solutions for applying address hygiene software to the RTS and is subject to limited Information Technology resources such as funding constraints and competing priorities. An implementation date cannot be provided.

IMPLEMENTATION DATE

N/A

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.