



Treasury Inspector General for Tax Administration Office of Audit

CURRENT PRACTICES ARE PREVENTING A REDUCTION IN THE VOLUME OF UNDELIVERABLE MAIL

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Highlights

Highlights of Report Number: 2010-40-055 to the Internal Revenue Service Commissioner for Wage and Investment Division.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) mails approximately 200 million notices (including letters) to individual and business taxpayers and their representatives each year. However, millions of pieces of mail are returned undeliverable to the IRS for various reasons. When mail is undeliverable, the amount taxpayers owe can grow as interest and penalties multiply, and liquid assets such as bank accounts may eventually be levied to pay the debt owed for taxes, penalties, and interest.

WHY TIGTA DID THE AUDIT

The objective of the audit was to determine whether the IRS can reduce the volume of undeliverable mail. The IRS mails millions of pieces of mail to taxpayers, not all of which is delivered.

WHAT TIGTA FOUND

During Fiscal Year 2009, approximately 19.3 million pieces of mail were returned to the IRS at an estimated cost of \$57.9 million. From a random sample of 331 notices and letters returned to the IRS, 239 (72 percent) pieces could not be delivered to the addresses provided.

The IRS allows taxpayers to submit a change of address online only when inquiring about a refund that was not received. Additionally, the IRS allows address changes over the telephone only under certain circumstances.

The IRS continues to limit the use of address hygiene software to a small number of systems and restrict its functionality to make systemic changes when errors are identified. Moreover, analyses of the Master File identified 2.1 million taxpayers with international addresses who are at risk of not receiving correspondence from the IRS because many international addresses do not fit into IRS systems' formats. In addition, the use of a universal

indicator for taxpayer accounts with a bad address could trigger the suspension of all nonstatutory notices.

The full service Intelligent Mail barcode is the next generation of United States Postal Service barcode technology used to sort and track letters. This could save the IRS approximately \$600,000 annually in postage.

The IRS leases access to the United States Postal Service National Change of Address database to update the Master File with the most current mailing addresses for taxpayers. However, the Master File was updated for only about 20 percent of the address changes submitted. Finally, the IRS lacks a standardized method for processing undeliverable mail.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, revise guidelines to allow all taxpayers to change their address by telephone and on any notices requiring a response or a payment voucher. Address hygiene software should be on any address system to ensure all outgoing correspondence has an accurate and complete address. Also, procedures should be developed to place an indicator on taxpayer accounts with a bad address and suspend the issuance of nonstatutory notices. Finally, the Commissioner, Wage and Investment Division, should develop standardized procedures for processing undeliverable mail for all IRS functional offices.

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

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2010reports/201040055fr.pdf>

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