



*Improvements in the Distribution and Design
of Internal Documents and Tax Publications,
Forms, and Notices Could Reduce Costs
Considerably*

June 17, 2008

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 17, 2008

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

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

SUBJECT: Final Audit Report – Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably (Audit # 200740024)

This report presents the results of our review to evaluate the Internal Revenue Service's (IRS) efforts to reduce publishing and mail costs. This audit was conducted as part of our Fiscal Year 2007 Annual Audit Plan.

Impact on the Taxpayer

In Fiscal Year 2007, the IRS spent more than \$237 million to print, process, and distribute internal documents, tax publications, forms, and written correspondence, including notices, to taxpayers and employees. The IRS can strengthen internal controls and increase oversight to reduce costs for the publishing and postal budget. Taxpayers indirectly benefit when management of tax administration is efficient and cost effective.

Synopsis

Controlling and accounting for the IRS' publishing and postal budget is an enormous task considering the volume and variety of publications, forms, instructions, letters, and notices it uses and the number of customers it serves—including an organization of more than 100,000 employees (and about 70,000 volunteers) operating out of more than 8,800 nationwide offices that receive shipped internal documents. Additionally, although the IRS' Media and Publications function funds the publishing and distribution of the majority of IRS' documents, the administration of the publishing and postal budget crosses different IRS business units,



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offices, and functions.¹ The Media and Publications function does not currently control or own many of its products—ownership and control lie with the IRS' various business units and functional offices. This has resulted in limited oversight and control over the production and distribution of documents essential to tax administration.

For Fiscal Years 2006 and 2007, the Media and Publications function realized postal budget deficits of \$7.4 and \$23.9 million, respectively. The IRS projects that it will experience a \$29.5 million postage deficit for Fiscal Year 2008. The deficits were attributed to increases in compliance activities, which resulted in increased enforcement contacts, together with increases in postal rates. Also, notices to taxpayers are longer and include more pages and stuffers.² However, the IRS' emphasis on quality taxpayer customer service requires effective communication with taxpayers. For the past 2 fiscal years, the IRS has funded a large portion of its postage costs from other programs.

Tests in three of the following Media and Publications function programs show the IRS could save substantial publishing and mailing costs by improving oversight and/or internal controls.

- The Post of Duty Program distributes tax forms, instructions, and publications to the IRS' 401 Taxpayer Assistance Centers.³ A statistical sample of Taxpayer Assistance Centers showed an excess inventory of tax products costing approximately \$96,000 in Fiscal Year 2006 and approximately \$91,000 in Fiscal Year 2007. The 2-year actual lost dollars and 3-year future projected cost savings from the elimination of printing and distribution of excess tax products totaled \$3.2 million.
- The Internal Management Document Distribution System (IMDDS) operated by the Media and Publications function is used to distribute internal documents to IRS functional offices and employees. A statistical sample of functional offices listed on the IMDDS in Fiscal Year 2007 showed that 11,627 internal documents were unnecessarily delivered to functional offices at a cost of approximately \$13,371. The 1-year actual lost dollars and 4-year future projected cost savings from the elimination of printing and distribution of unnecessary documents totaled \$4.6 million.

¹ The IRS is divided into three Commissioner-level organizations with four primary business units/divisions: Large and Mid-Size Business, Small Business/Self-Employed, Tax Exempt and Government Entities, and Wage and Investment Divisions. Other principal offices include Appeals, Communications and Liaison, Criminal Investigation Division, Office of Chief Counsel, Office of Professional Responsibility, and Taxpayer Advocate Service. Each division or office has multiple functions.

² Stuffers are individual inserts included in the envelope with the notices and letters. They generally provide taxpayers with additional information related to the notice or promote IRS programs and services.

³ Taxpayer Assistance Centers provide taxpayers with face-to-face assistance in interpreting tax laws and regulations, preparing certain tax returns, resolving inquiries on taxpayer accounts, and providing various other services designed to minimize the burden on taxpayers in satisfying their tax obligations. The Field Assistance Office has responsibility for the Taxpayer Assistance Center Program.



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- The Notice/Letter Program generates and mails notices and letters to taxpayers pertaining to their tax accounts. A judgmental sample of 40 notices and letters most frequently issued to taxpayers in Fiscal Years 2005 through 2007 showed that the IRS could have saved approximately 408 million pages of paper at a cost of approximately \$7.3 million by improving oversight and centralizing authority over the Program. The 2-year future projected cost savings from the elimination of unnecessary pages and stuffers in notices and letters issued to taxpayers totaled \$4.9 million.

The IRS is already taking corrective actions. For example, the Field Assistance Office issued guidance to its Taxpayer Assistance Center managers that stressed the importance of balancing the availability of the proper amount of tax products for distribution to taxpayers and the effective management of tax products to reduce waste. The Media and Publications function is planning to implement a new system to allow employees to use the IRS' Intranet to order products and update the IMDDS. Future system enhancements will include adding a process to validate order points and distribution quantities, conduct annual validation surveys, and remove offices that are no longer responding.

Recommendations

The Commissioner, Wage and Investment Division, should 1) establish a control system to ensure that the level of inventory of tax products at Taxpayer Assistance Centers is cost effective, 2) ensure that IRS functional offices are aware of the significance of the IMDDS, 3) establish and implement a system of internal controls to ensure that IMDDS data are current and reliable, and 4) enhance the notice improvement process to include reviews of all notices and letters to ensure that they use the least possible resources.

Response

IRS management agreed with all of our recommendations but did not agree with the outcome measures. In response to our four recommendations, IRS management stated that:

- 1) The Media and Publications function partnered with the Field Assistance Office to improve communications and strengthen internal controls on forms and publication inventory management. To enhance efficiency and reduce waste, they modified the ordering process by creating a Revision Date list allowing Taxpayer Assistance Centers to order revised forms when they are revised rather than annually, implementing the capability to order tax products in less than full carton increments, and developing training which increases emphasis on inventory management.
- 2) The initial phase of the new Order and Subscription Management System was launched in February 2008. In addition to using the system to place orders, offices are now able to change



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Order Point Number Information including contact information, number of employees, and the addition/deletion of items from their IMDDS. Management will develop an IRS-wide training module on the Enterprise Learning Management System which, along with a certification process, will help to ensure that offices are aware of the significance of the IMDDS and the need to keep it current.

(3) To ensure that the IMDDS data are current and reliable, the Order and Subscription Management System will improve the ability to communicate with the Order Point Number via email when there are changes impacting the number of internal documents in an office.

(4) They will enhance the Order and Subscription Management System to include a process for validating Order Point Numbers and distribution quantities. They have developed a Notice Governance Review Process for new and revised notices. This process includes issuance of a checklist to ensure that proper coordination across business units has taken place, that effectiveness measures have been developed, and that the most efficient delivery and publishing options (including postage impact) have been considered. This process will also include a review of all notices and letters to ensure they use the least possible resources.

Management's complete response to the draft report is included as Appendix VI.

Office of Audit Comment

The IRS agreed with all of our recommendations and has taken actions to improve oversight and reduce costs. It also agreed that planned corrective actions would generate cost savings but did not agree with all the measurable benefits of \$20 million. However, our tests allowed for variables and were based on the best data available. The reported actual and projected measurable benefits are a conservative estimate of cost savings the IRS could realize from its corrective actions.

Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.



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Abbreviations

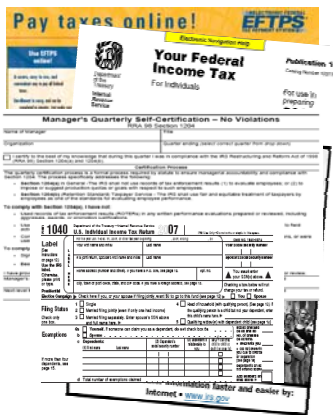
IMDDS	Internal Management Document Distribution System
IRS	Internal Revenue Service



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Background

The Internal Revenue Service (IRS) collects approximately \$2.3 trillion annually and it begins with the forms, instructions, and publications that the IRS' Media and Publications function creates, publishes, and delivers. The IRS annually publishes and mails tax forms, instructions, and publications that taxpayers need to file tax returns and comply with the Federal tax laws. It also mails millions of letters and notices to individual and business taxpayers and their representatives each year. In addition, it publishes and distributes internal documents that IRS employees need to do their jobs.



In Fiscal Year 2007, the Media and Publications function spent more than \$237 million to print, process, and distribute tax forms, instructions, publications, and written correspondence, including notices. For Fiscal Year 2008, the postal budget is \$187 million and the printing budget is \$63 million.

Controlling and accounting for the publishing and postal budget is an enormous task considering the volume and variety of publications, forms, instructions, letters, and notices the IRS uses and the number of customers it serves—including an organization of more than 100,000 employees (and about 70,000 volunteers) operating out of more than 8,800 nationwide offices that receive shipped internal documents. Additionally, although the Media and Publications function funds the publishing and distribution of the majority of the IRS' documents, the administration of the publishing and postal budget crosses different IRS business units, offices, and functions.¹

The Media and Publications function's mission is to meet customer needs through developing understandable notices to produce external and internal forms and publications that facilitate tax administration and ease of compliance by taxpayers, and to supply media and publishing services to customers. To help meet its mission, the Media and Publications function has Publishing and Distribution Branches.

- The Publishing Branch plans, produces, or procures IRS printed products used by the public to comply with tax filing requirements and obligations and used internally within the IRS for

¹ The IRS is divided into three Commissioner-level organizations with four primary business units/divisions: Large and Mid-Size Business, Small Business/Self-Employed, Tax Exempt and Government Entities, and Wage and Investment Divisions. Other principal offices include Appeals, Communications and Liaison, Criminal Investigation Division, Office of Chief Counsel, Office of Professional Responsibility, and Taxpayer Advocate Service. Each division or office has multiple functions.



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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 communication 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 at the Wage and Investment Division Headquarters in Atlanta, Georgia, and the Media and Publications function in Washington, D.C., during the period June 2007 through January 2008. 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

For Fiscal Years 2006 and 2007, the Media and Publications function realized postal budget deficits of \$7.4 and \$23.9 million, respectively. The IRS projects that it will experience a \$29.5 million postage deficit for Fiscal Year 2008. The deficits were attributed to increases in compliance activities, which resulted in increased enforcement contacts, together with increases in postal rates. Also, notices to taxpayers are longer and include more pages and stuffers.² However, the IRS' emphasis on quality taxpayer customer service requires effective communication with taxpayers. For the past 2 fiscal years, the IRS has funded a large portion of its postage costs from other programs.

Better Inventory Controls Over the Post of Duty Program Would Reduce Costs

The Media and Publications function's Post of Duty Program distributes tax forms, instructions, and publications to the IRS' 401 Taxpayer Assistance Centers. Taxpayer Assistance Centers provide taxpayers with face-to-face assistance in interpreting tax laws and regulations, preparing certain tax returns, resolving inquiries on taxpayer accounts, and providing various other services designed to minimize the burden on taxpayers in satisfying their tax obligations. As part of these services, the Taxpayer Assistance Centers maintain an inventory of many of the IRS' tax products, which includes forms, instructions, and publications to allow taxpayers the option of picking up the forms and publications at a local office.

Our test results showed that the IRS does not have an effective process to determine the volume of tax products needed at the Taxpayer Assistance Centers. A statistical sample of tax product inventories and orders from 58 of the 401 Taxpayer Assistance Centers showed the following approximate excess tax products:³

- 1.3 million tax products costing approximately \$96,000 in Fiscal Year 2006.
- 1.2 million tax products costing approximately \$91,000 in Fiscal Year 2007.

Taxpayer Assistance Centers using 90 percent of their inventories of tax products were considered to have efficient inventory controls. An inventory of remaining tax products of more than 10 percent of annual orders was considered waste. Figure 1 shows the results of the analyses of the inventories for the 58 Taxpayer Assistance Centers sampled.

² Stuffers are individual inserts included in the envelope with the notices and letters. They generally provide taxpayers with additional information related to the notice or promote IRS programs and services.

³ Excess tax products for the months of October through September for Fiscal Years 2006 and 2007.



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Figure 1: Taxpayer Assistance Center Sample Results

	Fiscal Year 2006		Fiscal Year 2007	
	Sampled	Projected to All Taxpayer Assistance Centers	Sampled	Projected to All Taxpayer Assistance Centers
Taxpayer Assistance Centers With Excess Tax Products	27 of 58 (47%)	188 of 401 (47%)	25 of 58 (43%)	172 of 401 (43%)
Number of Excess Tax Products	1.3 million	9.2 million	1.2 million	8.7 million
Cost of Excess Tax Products⁴	\$96,000	\$674,000	\$91,000	\$638,000

Source: Our analysis of Media and Publications function Due-In and Balance on Hand Survey Reports for Fiscal Years 2005 through 2007.

From the results of our statistical sample of Taxpayer Assistance Centers, the projected cost of excess tax products for 188 Taxpayer Assistance Centers is \$674,000 for Fiscal Year 2006. For Fiscal Year 2007, the projected cost for 172 Taxpayer Assistance Centers is \$638,000.⁵

The Media and Publications function requires that all Taxpayer Assistance Centers be surveyed each year for initial tax product quantity requirements (Due-In Survey) and to determine the balance on hand remaining in May (Balance On Hand Survey). The Due-In Survey completed in June is to reflect the initial order adjusted by reorders and the May 1 Balance On Hand Survey data.

To mitigate costs, the Media and Publications function ensures that mail costs are kept to a minimum by shipping full cartons and combining orders. However, neither it nor the Field Assistance Office responsible for the Taxpayer Assistance Center Program has trended the data over multiple years to ensure that inventories are in line with expected taxpayer demand. Internal controls should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. In December 2007, the Field Assistance Office issued guidance to

⁴ We used the average publishing (\$.0545) and shipping (\$.0191) expense provided by the Media and Publications function to compute the actual and projected costs (\$.0545 + \$.0191 = \$.0736). The calculated cost of excess tax products will not equal due to rounding.

⁵ The sampling error is ± 5 percent with a 90 percent confidence level that the cost of excess tax products ranges from \$362,375 to \$968,572 for Fiscal Year 2006 and from \$331,071 to \$929,258 for Fiscal Year 2007 for the population of 401 Taxpayer Assistance Centers. The 2-year actual lost dollars and 3-year future projected cost savings from the elimination of printing and distribution of excess tax products totaled approximately \$3.2 million. See Appendix IV for details.



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Taxpayer Assistance Center managers that stressed the importance of balancing the availability of the proper amount of tax products for distribution to taxpayers and the effective management of tax products to reduce waste.

Insufficient cost data and fragmented administration diffuses the accountability for the Post of Duty Program results

Although a discussion with Field Assistance Office managers showed that costs are a consideration when doing business, their focus is on their programs' objectives and goals. The funding for the Taxpayer Assistance Centers' inventory of forms, instructions, and publications lies with the Media and Publications function.

Since August 2007, the Field Assistance Office has dedicated an employee to partner with the Media and Publications function to improve communication and help ensure efficient inventory controls. The Media and Publications function has also made the commitment to the Field Assistance Office to provide assistance and foster relationships with it. This is the initial step to improve the availability and distribution of tax products while also focusing on reducing costs.

Federal Government management control standards require that agencies ensure that appropriate authority, responsibility, and accountability are defined and delegated to accomplish the mission of the organization.⁶ The Media and Publications function must communicate its goals and have sufficient oversight and controls to ensure accountability and recognition of the value and importance of the Media and Publications function programs to both its internal and external stakeholders. However, the Media and Publications function has limited systems to track the use, costs, and effectiveness of its products. Therefore, it cannot provide sufficient oversight or provide the users and owners of its various products with sufficient cost data so they can make sound business decisions.

For example, the Media and Publications function was not able to readily provide the cost of publishing and shipping tax products to the Taxpayer Assistance Centers. It deals simultaneously with more than 25 vendors under dozens of contracts to produce and distribute tax products directly to the Taxpayer Assistance Centers. To determine the cost of providing tax products to the Taxpayer Assistance Centers, the Media and Publications function would have to review invoices for all of the vendors that publish each form and publication. This process would have to be repeated for each document provided to the Taxpayer Assistance Centers.

The Media and Publications function deals simultaneously with more than 25 vendors under dozens of contracts to produce and distribute tax products directly to the Taxpayer Assistance Centers.

⁶ Office of Management and Budget's *Management's Responsibility for Internal Control* (Circular A-123), as revised December 21, 2004.



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Instead, the Media and Publications function provided auditors with the average cost for approximately 200 products that were shipped to the Taxpayer Assistance Centers during Fiscal Year 2006. To compute the cost of excess tax products, we took the average of the average costs provided by the Media and Publications function. To compute the associated shipping costs, we used the Media and Publications function methodology that uses a percentage of the publishing costs. The Media and Publications function is planning to review the Taxpayer Assistance Centers' mandatory tax products stocking lists to determine tax products volumes. This will improve the product ordering process and allow for adjustments to the distribution plan. These types of adjustments have not been done in the past.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should establish a control system to ensure that the level of inventory of forms and publications maintained by the Taxpayer Assistance Centers is cost effective.

Management's Response: IRS management agreed with this recommendation but did not agree with the reported outcome measure. The Media and Publications function partnered with the Field Assistance Office to improve communications and strengthen internal controls on forms and publication inventory management. To enhance efficiency and reduce waste, they modified the ordering process by 1) creating a Revision Date list allowing Taxpayer Assistance Centers to order revised forms when they are revised rather than annually, 2) implementing the capability to order tax products in less than full carton increments, and 3) developing training which increases emphasis on inventory management.

Office of Audit Comment: The IRS believed the cost of excess products did not take into consideration Taxpayer Assistance Center estimated usage (23 percent) for the remainder of the calendar year after the completion of the Balance on Hand survey in May and legislation passed late in the calendar year. Our tests allowed for 10 percent usage during this time period. The IRS' 23 percent estimate is based on taxpayer contacts and not a count of specific tax products distributed, because the current process does not require Taxpayer Assistance Center managers to count inventory used from June through December. During the fall, taxpayers generally begin to obtain tax documents for the upcoming filing season. Our outcomes were based on the best data available because, without a subsequent count, we cannot rely upon the IRS' estimated usage during this time period.

Furthermore, the Media and Publications function requires that all Taxpayer Assistance Centers take into consideration all variables when determining the appropriate volume of tax products to order. Neither the Media and Publications function nor the Field Assistance Office trended data over multiple years to ensure inventories were in line with



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expected taxpayer demand. Our analyses identified waste in each of the 2 years of the IRS' Post of Duty program data tested, and we believe the cost of excess tax products is accurately reflected.

Better Controls and More Oversight Over the Distribution of Internal Documents to Employees Would Reduce Costs

The IMDDS automatically distributes published products to IRS employees.

The IMDDS is designed to reduce employee burden by automatically distributing internal documents as they are revised and printed based on the quantity established by each office. This is supposed to ensure that IRS offices never have to order additional copies of products or throw away excess products if their IMDDS distribution is accurate.

All IRS functional offices receive a quarterly (March, June, September and December) IMDDS Order Point Summary Report that lists every item (and the associated quantities) that is automatically sent to the functional office each time the products are revised. The functional offices should review the report and revise it with any necessary changes.

Although the IRS communicates with its employees extensively through its Intranet, it maintains an inventory of more than 2,000 published internal documents, including the IRS internal manual containing operational guidelines. More than 100,000 employees operating in 8,841 nationwide offices use these internal documents to do their jobs, requiring the IRS to maintain an extensive distribution system called the Internal Management Document Distribution System (IMDDS). The IMDDS is operated by the Media and Publications function and is used to distribute internal documents to IRS functional offices and employees.

We sent questionnaires to a statistical sample of 133 of the 8,841 functional offices (order points) listed on the IMDDS for Fiscal Year 2007.⁷ Office managers were asked if the current documents distributed to their offices were needed and, if so,

would the offices prefer to receive them in electronic format. Based on the answers to the questionnaires, 11,627 (37 percent) of 31,208 unique internal documents were unnecessarily delivered to functional offices at a cost of approximately \$13,371. Of the 133 functional offices tested:

- 7 offices (5 percent) had disbanded and no longer existed.
- 4 managers (3 percent) responded that they did not need any of the internal documents that were scheduled to be delivered and/or that they had been receiving.
- 60 managers (45 percent) responded that they did not need all of the documents that were scheduled to be delivered and/or that they had been receiving--or that they preferred to receive them electronically.

⁷ Our original sample was 136 offices. We were unable to capture the results for three offices because the respondents did not answer all of the questions on the questionnaires.



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- 62 managers (47 percent) responded that they needed all of the documents--but not necessarily the quantity they were current receiving--or preferred to receive some of them electronically.

Our results show that office managers do not understand the IMDDS and do not update their list of documents scheduled to be distributed. Additionally, there are insufficient internal controls to ensure the IMDDS is operating as intended. The IMDDS is not kept current, as evidenced by functional offices listed that no longer existed. Documents were also being automatically delivered to functional offices that no longer needed or wanted them or could be provided more economically in electronic formats.

Figure 2 shows the volume of documents being shipped to IRS functional offices that are no longer needed or, if needed, could be delivered in an electronic format.

Figure 2: IRS Functional Office Internal Documents Sample Results

Responses	Documents No Longer Needed	Documents Preferred in Electronic Format	Total Documents
Did not need any documents.	2,073	–	2,073
Did not need all of the documents and/or did not need the quantity delivered.	4,808	1,259	6,067
Needed all of the documents but in lesser quantities.	548	2,939	3,487
Totals	7,429	4,198	11,627

Source: Our analysis of responses to questionnaires and the August 2007 IMDDS report.

From the results of our statistical sample of office managers’ responses, the projected cost savings the IRS could realize from improved internal controls and oversight of IMDDS is \$925,048 for Fiscal Year 2007.⁸

Internal controls were not effective to ensure the accuracy and reliability of IMDDS data⁹

- Periodic reviews and reconciliations of order points were not completed to ensure that offices were still functional. Seven (5 percent) of the 133 offices in our sample that are currently

⁸ The sampling error is ±5 percent with a 90 percent confidence level that the cost of unneeded documents ranges from \$602,025 to \$1,166,175. The 1-year of actual lost dollars and 4-year future projected cost savings from the elimination of printing and distribution of unnecessary documents to the 8,841 IRS functional offices totaled \$4.6 million. See Appendix IV for details.

⁹ The calculated number of offices will not equal due to rounding.



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receiving internal documents no longer exist or have changed locations. Projecting this to the total population, the number of offices that might no longer exist but are still receiving documents is 465 (5 percent x 8,841). An integral component of any management information system is application controls. The Media and Publications function should ensure that application controls are incorporated directly into the IMDDS to help ensure the validity, completeness, and accuracy of data.

- Effective guidance and education were not provided to ensure that office managers understood the significance and purpose of the IMDDS order forms and reports. For example, when asked if they understood the significance and purpose of the IMDDS order forms and reports, 29 (23 percent) of 128 managers indicated they did not. Projecting this to the total population, the number of office managers that might not understand the IMDDS is 2,003 (23 percent x 8,841). Understanding information system controls is important when information systems are used as an extensive part of the program. The Media and Publications function should ensure that all office managers understand the importance of the IMDDS and the costs associated with it.

Additionally, the Media and Publications function did not have cost data specific to each internal document. For example, the Media and Publications function did not have the data on the cost of publishing and shipping internal documents to IRS functional offices. Instead, it advised us to use the average cost of the most and least frequently published document. To compute the cost of excess internal documents, we took the average costs provided by the Media and Publications function.

IRS officials acknowledge the problems with the IMDDS and are already taking corrective actions. For example, the Media and Publications function is planning to implement a new system to allow employees to use the IRS' Intranet to order products and update the IMDDS. Future system enhancements will include adding a process to validate order points and distribution quantities, conduct annual validation surveys, and remove offices that are no longer responding. Additionally, it plans to start transitioning appropriate IMDDS products to electronic format. This is a challenge because the current system is based on office delivery and not individual delivery.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 2: Ensure that functional offices are made aware of the significance of the IMDDS and the need to keep it current to prevent the shipment of unnecessary internal documents.

Management's Response: IRS management agreed with this recommendation but did not agree with the reported outcome measure. The initial phase of the new Order and



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Subscription Management System was launched in February 2008. In addition to using the system to place orders, offices are now able to change Order Point Number Information including contact information, number of employees, and the addition/deletion of items from their IMDDS. Management will develop an IRS-wide training module on the Enterprise Learning Management System which, along with a certification process, will help to ensure that offices are aware of the significance of the IMDDS and the need to keep it current.

Recommendation 3: Establish and implement a system of internal controls to ensure that IMDDS data are current and reliable. This includes conducting a complete reconciliation of offices/order points to ensure that functional offices scheduled to receive internal documents have not relocated or disbanded.

Management's Response: IRS management agreed with this recommendation but did not agree with the reported outcome measure. To ensure that IMDDS data are current and reliable, the Order and Subscription Management System will improve the ability to communicate with the Order Point Number via email when there are changes impacting the number of internal documents in an office. Management will enhance the Order and Subscription Management System to include a process for validating Order Point Numbers and distribution quantities.

Office of Audit Comment: The IRS believes its planned training and modified ordering process will reduce our projected savings. However, we believe our reported outcomes are accurate because they are based on a statistical sample that reflects cost savings the IRS could realize as a result of audit tests and the IRS' corrective actions. Our process is designed to allow the IRS an opportunity to reflect realized savings once they have occurred.

Improved Oversight and More Centralization Would Reduce the Costs of Issuing Notices and Letters

The Notice/Letter Program generates and mails notices and letters to taxpayers pertaining to their tax accounts. The IRS has more than 44 different systems that generate more than 1,000 different types of notices and letters. The volume of notices and letters issued has increased approximately 518 percent, from approximately 30 million in Fiscal Year 2001 to approximately 183 million in 2007.¹⁰ Additionally, the increased weight of the correspondence (i.e., increase in

One tree is needed to make approximately 8,300 sheets of copy paper. At least 43,000 trees are needed to create just the paper for the notices and letters the IRS mails in 1 year, considering a notice is no less than 2 pages.

¹⁰ The calculated percentage increase will not equal due to rounding.



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the number of pages and the number of stuffers) is contributing to the increased costs.

A judgmental sample of 40 notices and letters most frequently issued to taxpayers over 3 years (Fiscal Years 2005 through 2007) showed that the IRS could have saved approximately 408 million pages of paper at a cost of approximately \$7.3 million by 1) eliminating duplicate copies of notices and letters provided to taxpayers, 2) eliminating unnecessary cover sheets, 3) redesigning notices and letters, and 4) reducing the number of stuffers included with a notice/letter. See Figure 3 for a breakdown of the cost savings.



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Figure 3: Cost Savings Associated With Notices and Letters¹¹

Type of Change	Number of Notices and Letters	Costs for the Prior 3 Fiscal Years	Projected Cost Savings Over the Next 2 Fiscal Years	Totals
Eliminating Duplicate Copies of Notices and Letters	5	\$1,376,991	\$917,994	\$2,294,985
Eliminating Unnecessary Cover Sheets	4	\$1,397,403	\$931,602	\$2,329,005
Redesigning Notices and Letters	12	\$3,953,655	\$2,635,770	\$6,589,425
Reducing Stuffers Included With Notices and Letters	16	\$620,133	\$413,422	\$1,033,555
Total		\$7,348,182	\$4,898,788	\$12,246,970¹²
Eliminating Duplicate Copies of Notices and Letters	For 5 (13 percent) of the 40 notices reviewed, the IRS could eliminate the duplicate copy. As a courtesy, when the IRS sends notices or letters to taxpayers, it includes two copies – one intended to be returned to the IRS with either a payment or explanation and one for taxpayers to keep for their records.			
Eliminating Unnecessary Cover Sheets	For 4 (10 percent) of the 40 notices reviewed, the IRS could eliminate the cover sheets. To protect taxpayer privacy, the IRS includes cover sheets to prevent taxpayer Social Security Numbers from being seen through the window on the envelopes. However, the IRS no longer prints taxpayers' Social Security Numbers on notices that can be seen through the window on envelopes.			
Redesigning Notices and Letters	For 12 (30 percent) of the 40 notices reviewed, the IRS could eliminate 1 page of each notice by rearranging the content of the notices to better utilize blank space.			
Reducing the Number of Stuffers Included With Notices and Letters	For 16 (40 percent) of the 40 notices reviewed, the IRS could eliminate 18 stuffers included with the notices and letters. The IRS mails out more than 70 types of stuffers with correspondence it sends to taxpayers.			

Source: Our analysis of IRS notices and letters.

¹¹ Specifics on each of the notices, letters, and stuffers can be found in Appendix V.

¹² See Appendix IV for details. The cost savings will not equal totals in Appendix IV due to rounding.



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

The 2-year future projected cost savings from the elimination of unnecessary pages and stuffers in notices and letters issued to taxpayers totals \$4.9 million.¹³ The cost savings include the paper and ink used to produce the notices and letters, but does not include postage. We also attempted to determine the cost savings for the machines used to produce notices and letters; however, the IRS did not track the information and was unable to provide it to us. Without these data, neither we nor the IRS were able to calculate productivity gains from reducing the number of stuffers, pages printed, and envelopes stuffed. In addition, we could not determine the savings in postage, if any, because the elimination of a page or stuffer might not sufficiently decrease the total weight of the envelope.

The IRS has ongoing efforts to improve the content/effectiveness of the notices and letters. It also contacts its partners, such as the Internal Revenue Service Advisory Council,¹⁴ with suggestions for notice improvements. The IRS recently asked the Council to assist in analyzing and reducing the volume of stuffers. In its report dated November 15, 2007, the Council reported it saw many opportunities to reduce the substantial volume of paper generated each year.

Fragmented administration of the Notice/Letter Program affects the IRS' efforts to identify and implement changes to reduce costs

While the Media and Publications function's budget funds the publishing and distribution of the notices and letters, multiple offices and functions own them and two offices are dedicated to them:

- The Office of the Notice Gatekeeper in the Accounts Management function has responsibility for taxpayer communications, both electronic and paper. Its staff works closely with other IRS offices to collaborate and provide guidance for initiatives involving notices and letters. It also maintains the Servicewide Notice Information Program, an internal electronic tool that provides notice and letter information, such as purpose, stuffers, and telephone response rates. The Servicewide Notice Information Program also provides the notice volume from the most recent cycle, a sample image when available, and the purpose of the notice.
- The Notice Improvement Office in the Media and Publications function oversees and guides the taxpayer notice process and manages the notice improvement process by identifying, creating, and refining tools, processes, and the systems that enhance it.

In Fiscal Year 2007, the IRS hosted a Notice Summit to assess the current state of the notice process, update the notice vision and strategy, and develop a plan of action for improvements. One of the Summit's conclusions was that the IRS needs a single centralized business authority

¹³ See Appendix IV for details.

¹⁴ The primary purpose of the Internal Revenue Service Advisory Council is to provide an organized public forum for discussion of relevant tax administration issues between the IRS officials and representatives of the public.



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

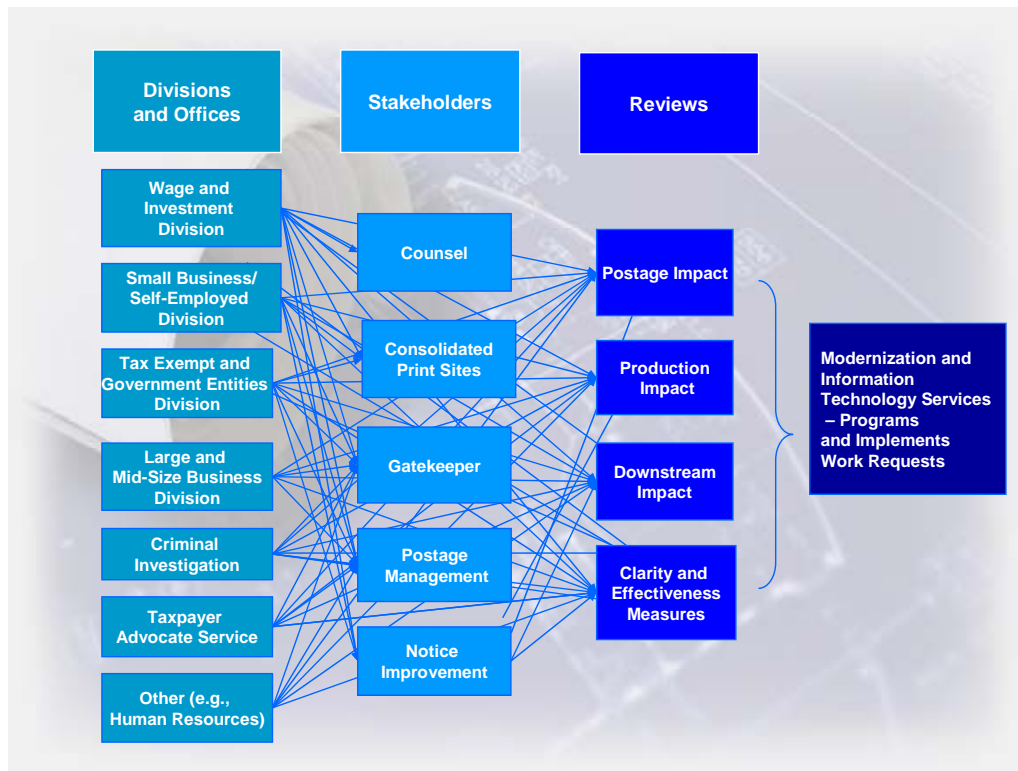
to oversee and guide all IRS outbound correspondence. For example, discussions with Correspondence Production Services in the Media and Publications function, which is responsible for printing, inserting, sorting, and mailing IRS notices, revealed that the amount of ink used for reverse text could print an entire notice page.

Reverse text is used for emphasis and is white text on black background rather than black text on white background.

Although responsible for printing notices, the Correspondence Production Services does not have the authority to make layout changes. Furthermore, identifying the notice owner or responsible office to discuss less costly alternatives can be difficult.

Figure 4 shows how administering the Notice/Letter Program is spread among multiple offices, owners, and stakeholders.

Figure 4: Current Notice Development Process



Source: IRS January 2008 PowerPoint, “Notice Governance ... a blueprint ... a process ... a state.”

What offices are responsible is unclear and communications between notice owners, stakeholders, and reviewers is convoluted. Without an understandable structure and a clear path of communication, there is little or no accountability for the program.



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

The steps we had to take to complete our analysis of the notices and letters mirrored those in Figure 4. Additionally, there was little or no cost information available, and we used estimates and outdated costs to quantify the cost savings. For example, the cost per page for the notices was obtained from a document prepared by an outside contractor that supplied the cost per page for each notice for Fiscal Year 2005.

Federal Government management control standards require that agencies ensure that appropriate authority, responsibility, and accountability are defined and delegated to accomplish the mission of the organization. The standards also require that an appropriate organizational structure be established to effectively carry out program responsibilities.

In Fiscal Year 2008, the Media and Publications function plans to establish a Notice Governance structure to provide oversight for notice delivery services. Management states that Notice Governance will provide the building blocks to create an IRS-wide review function, ensuring that notices are developed and issued in the most cost-efficient manner and adhere to IRS standards. Most importantly, a new system, the Notice Management Information System, will capture issuance costs and taxpayer behavior.

Recommendation

Recommendation 4: The Commissioner, Wage and Investment Division, should enhance the notice improvement process to include reviews of all notices and letters to ensure that they use the fewest possible resources. This includes arranging text to minimize pages, evaluating the cost/benefit of issuing taxpayers duplicate copies of notices, eliminating stuffers when the information can be included more economically in the notices, and identifying opportunities to reduce costs by changing the design and presentation of information in notices and letters.

Management's Response: IRS management agreed with this recommendation but did not agree with the reported outcome measure. They have developed a Notice Governance Review Process for new and revised notices. This process includes issuance of a checklist to ensure that proper coordination across business units has taken place, that effectiveness measures have been developed, and that the most efficient delivery and publishing options (including postage impact) have been considered. This process will also include a review of all notices and letters to ensure that they use the fewest possible resources.

Office of Audit Comment: The IRS believes that a review of notices will result in some savings but cautioned that the length of notices depends on the taxpayer's situation and some legislative mandates. Our tests were limited to a judgmental sample of only 40 out of the more than 1,000 notices and letters the IRS generates. The cost data used to calculate outcomes were outdated and based on estimates provided by the IRS. Furthermore, the lack of IRS data prohibited us from calculating additional machine cost savings due to productivity gains realized from reducing the number of stuffers, pages



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printed, and envelopes stuffed. The IRS agreed to conduct a review of all notices and letters to ensure that they use the least possible resources. As a result, we believe the reported outcome measure is a conservative estimate and accurately reflects projected cost savings.



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate the IRS' efforts to reduce publishing and mail costs. To accomplish this objective, we:

- I. Determined if Taxpayer Assistance Center managers were efficiently and effectively ordering and managing their inventories of tax forms, instructions, and publications made available to taxpayers.
 - A. Selected a statistical sample of 58 Taxpayer Assistance Centers from a total population of 401 Taxpayer Assistance Centers. We used a 90 percent confidence level with a 5 percent precision rate and 5 percent expected error rate to reach a sample size of 48. We selected 58 Taxpayer Assistance Centers to ensure that we selected an adequate sample. Data validation was limited to following up with IRS analysts to reconcile anomalies in data.
 - B. Reviewed the Due-In Survey Reports (tax products ordered from the Media and Publications function) and Balance on Hand Survey Reports (end-of-year inventory of tax products) to determine if the Taxpayer Assistance Centers efficiently ordered tax products for Fiscal Years 2005 through 2007.
 - C. Using tax products ordered for Fiscal Years 2005 through 2007, determined if there were any trends in the ordering pattern.
 - D. Determined the postage and publishing costs for all tax products to calculate waste for inefficient orders.
 - E. Evaluated the internal controls to determine if there was a cost-effective process to manage the inventory of tax products.
- II. Determined if IRS functional office managers were efficiently and effectively ordering and managing their inventory of internal documents made available for employees to do their jobs.
 - A. Conducted a walkthrough with IMDDS coordinators to obtain an overview of the system and how it automatically distributed published products to IRS employees.
 - B. Obtained IMDDS database reports to identify the number of functional offices receiving internal documents and the number of products available in hardcopy and electronic formats.



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- C. Selected a statistical sample of 136 IRS functional offices from a population of more than 8,841 IRS offices. We used a 90 percent confidence level with a 5 percent precision rate and 15 percent expected error rate to reach a sample size of 136.
 - 1. Emailed questionnaires to office managers for the offices in the sample. We contacted IRS office managers to validate the reliability of the IMDDS data. We also confirmed that IRS offices listed on IMDDS were still functional.
 - 2. Quantified results of the responses to the questionnaires.
 - D. Determined the postage and publishing costs for all internal documents to calculate waste for inefficient orders and documents received as hard copy.
 - E. Evaluated the internal controls to determine if there was a cost-effective process to manage the inventory of internal documents.
- III. Determined if the IRS has adequate controls over taxpayer notices and letters to ensure that its offices and functions were following laws and regulations and were using the most cost-effective methods to process and distribute notices and letters. Data validation was limited to obtaining and reviewing actual copies of notices and letters scheduled for issuance to taxpayers included in our sample.



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Wage and Investment Division SE:W
Director, Compliance, Wage and Investment Division SE:W:CP
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division SE:W:CAR
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Electronic Tax Administration SE:W:ETA
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Director, Media and Publications Division SE:W:CAR:MP
Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI
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
Senior Operations Advisor, Wage and Investment Division SE:W:S



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

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:

- Cost Savings – Funds Put to Better Use – Potential; \$3,280,000 (see page 3). The outcome includes actual lost dollars of \$1,312,000 for Fiscal Years 2006 and 2007. It also includes projected cost savings of \$1,968,000 to print, mail, and/or ship excess tax products to IRS Taxpayer Assistance Centers for Fiscal Years 2008 through 2010.

Methodology Used to Measure the Reported Benefit:

Excess Tax Products

Our test results showed the IRS does not have an effective process to determine the volume of tax products that need to be available for taxpayers at the Taxpayer Assistance Centers. A statistical sample of tax product orders from 58 of the 401 Taxpayer Assistance Centers showed approximately 1.3 million in excess tax products¹ in Fiscal Year 2006 and approximately 1.2 million in Fiscal Year 2007. We considered Taxpayer Assistance Centers using 90 percent of their inventories of tax products to have efficient inventory controls. Inventory of tax products remaining of more than 10 percent of annual orders was considered waste.

- For Fiscal Year 2006, 27 (47 percent) of 58 Taxpayer Assistance Centers did not use 90 percent of the tax products ordered. This represented 1.3 million tax products costing more than \$96,000 ($1,307,792 \times \0.0736^2) that were not needed.
- For Fiscal Year 2007, 25 (43 percent) of 58 Taxpayer Assistance Centers did not use 90 percent of the tax products ordered. This represented 1.2 million tax products costing more than \$91,000 ($1,238,895 \times \0.0736) that were not needed.

We projected the error rates for both years across the 401 Taxpayer Assistance Centers to compute the excess tax products and cost savings the IRS could have realized if the tax products had not been ordered:

¹ Excess tax products for the months of October through September for Fiscal Years 2006 and 2007.

² We used the average publishing (\$.0545) and shipping (\$.0191) expense provided by the Media and Publications function to compute the actual and projected costs ($\$.0545 + \$.0191 = \$.0736$).



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For Fiscal Year 2006:

- 188 (47 percent) of 401 Taxpayer Assistance Centers could have ordered 9.2 million tax products that were not needed. Specifically, we:
 - Divided the total population by the sample size = $401/58 = 7$ (interval).
 - Multiplied the waste from the exception Taxpayer Assistance Centers by the interval, $(1,307,792 \times 7) = 9,154,544$.
 - Multiplied the projected waste times the average publishing and shipping cost to determine the cost savings, $(9,154,544 \times \$0.0736) = \$673,774$.

For Fiscal Year 2007:

- 172 (43 percent) of 401 Taxpayer Assistance Centers could have ordered 8.7 million tax products that were not needed. Specifically, we:
 - Divided the total population by the sample size = $401/58 = 7$ (interval).
 - Multiplied the waste from the exception Taxpayer Assistance Centers by the interval, $(1,238,395 \times 7) = 8,668,765$.
 - Multiplied the projected waste times the average publishing and shipping cost to determine the cost savings, $(8,668,765 \times \$0.0736) = \$638,021$.

Projected cost savings over 3 years

We took the average actual lost dollars for both fiscal years and multiplied it by 3 years to compute the projected cost savings $(\$673,774 + \$638,021)/2 = \$656,000$; $(\$656,000 \times 3) = \$1,968,000$.

Total outcome for excess tax products

$\$674,000 + \$638,000 + \$1,968,000 = \$3,280,000$

Type and Value of Outcome Measure:

- Cost Savings – Funds Put to Better Use – Potential; \$4,625,240 (see page 7). The outcome includes actual lost dollars of \$925,048 for Fiscal Year 2007. It also includes projected cost savings of \$3,700,192 to print and ship unnecessary internal documents to IRS offices for Fiscal Years 2008 through 2011.

Methodology Used to Measure the Reported Benefit:

Excess Internal Documents

Test results showed the IRS unnecessarily delivered internal documents used by employees to do their jobs to its functional offices. A statistical sample of 133 of 8,841 functional offices (order



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

points) listed on the IMDDS³ in Fiscal Year 2007 were sent questionnaires.⁴ Based on managers' answers to the questionnaires, 11,627 (37 percent) of the 31,208 internal documents currently being delivered to these offices either were not needed or were preferred in electronic format. The total cost for the unneeded documents was approximately \$13,371. We computed the cost by multiplying the number of documents that were no longer needed or were preferred in electronic format by the average printing and shipping costs (11,627 x \$1.15).

We projected the sampled results to all 8,841 IRS functional offices to compute the cost savings the IRS could realize by not printing and mailing internal documents that were no longer needed or were preferred in electronic format. As of August 2007, these offices were receiving 2,159,061 internal documents.⁵

- **For the offices that did not need any of the documents, we projected that the IRS delivered 143,416 unneeded internal documents at a cost of \$164,929.**

Documents not needed from sample results:	2,073
Number of documents delivered to sampled offices:	31,208
Percentage of documents not needed:	$2,073/31,208 = 6.6425$ percent

Projected number of documents not needed:	$6.6425\% \times 2,159,061 = 143,416$
Projected cost:	$143,416 \times \$1.15 = \$164,929$

- **For the offices that did not need all of the documents and/or did not need the quantity delivered, we projected that the IRS delivered 419,733 unneeded internal documents at a cost of \$482,693.**

Documents not needed from sample results:	6,067
Number of documents delivered to sampled offices:	31,208
Percentage of documents not needed:	$6,067/31,208 = 19.4405$ percent

Projected number of documents not needed:	$19.4405\% \times 2,159,061 = 419,733$
Projected cost:	$419,733 \times \$1.15 = \$482,693$

- **For managers that responded they needed all of the internal documents but in lesser quantities, we projected the IRS delivered 241,241 unneeded internal documents at a cost of \$277,427.**

Documents not needed from sample results:	3,487
Number of documents delivered to sampled offices:	31,208
Percentage of documents not needed:	$3,487/31,208 = 11.1734$ percent

³ The IRS uses the IMDDS to distribute internal documents to its functional offices and employees.

⁴ Our original sample was 136 offices. We were unable to capture the results for three offices because the respondents did not answer all of the questions on the questionnaires.

⁵ The calculated projected cost savings of the internal documents will not equal due to rounding.



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

Projected number of documents not needed: $11.1734\% \times 2,159,061 = 241,241$
Projected cost: $241,241 \times \$1.15 = \$277,427$

Projected cost savings over 4 years

We took the actual cost savings for 2007 x 4 years to compute the projected cost savings $(\$164,927 + \$482,691 + \$277,427) = \$925,048 \times 4 = \$3,700,192$.

Total outcome for excess internal documents

$\$925,048 + \$3,700,192 = \$4,625,240$

Type and Value of Outcome Measure:

- Cost Savings – Funds Put to Better Use – Potential; \$12,261,100 (see page 10). The outcome includes actual lost dollar of \$7,356,660 for Fiscal Years 2005 through 2007. It also includes projected cost savings of \$4,904,440 to print unnecessary notice pages to taxpayers for Fiscal Years 2008 through 2009.

Methodology Used to Measure the Reported Benefit:

Notices and Letters

Test results showed that for Fiscal Years 2005 through 2007, the IRS could have saved approximately 408 million pages of paper at a cost of approximately \$7.3 million by (1) eliminating duplicate copies of notices and letters provided to taxpayers, (2) eliminating unnecessary cover sheets, (3) redesigning notices and letters, and (4) reducing the number of stuffers included with the notice/letter. We computed the actual cost savings by multiplying the number of unneeded pages by the average cost (\$.034) for notices and (\$.003) for stuffers provided by the Media and Publications function.⁶

- The cost savings from eliminated pages: $197,844,093 \times \$.034 = \$6,726,699$
- The cost savings from eliminated stuffers: $209,986,935 \times \$.003 = \$629,961$
- Total: $\$7,356,660$

Projected cost savings over 2 years

We computed the projected cost savings by taking the average of the cost savings multiplied over 2 years.

$(\$7,356,660)/3 = \$2,452,220 \times 2 = \$4,904,440$

⁶ The cost savings in Appendices IV and V will not equal due to rounding.



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

Total Outcome for notices/letters waste

\$7,356,660 + \$4,904,440 = \$12,261,100



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

Appendix V

Notices and Letters Included in Cost Savings

Eliminating Duplicate Copies of Notices and Letters

Notices	Title/Description	Pages Reduced	Pages Eliminated Annually	Annual Savings
0012C	Individual Return Incomplete for Processing: Form 1040	3	2,807,477	\$95,604
0105C	Claim Disallowed	3	1,085,913	\$36,143
0147C	EIN Previously Assigned	1	429,266	\$14,305
2273C	Installment Agreement Accepted; Terms Explained	4	4,349,417	\$147,900
3217C	Installment Agreement Accepted; Terms Explained	4	4,840,301	\$165,045
Annual Savings			13,512,374	\$458,997
Waste for Fiscal Years 2005-2007			40,537,122	\$1,376,991
Projected Savings for Fiscal Years 2008-2009			27,024,748	\$917,994
Totals			67,561,870	\$2,294,985

Source: Our analysis of the Media and Publications function Correspondence Production Services.



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

Eliminating Unnecessary Cover Sheets

Notices	Title/Description	Pages Reduced Per Notice	Pages Reduced Annually	Annual Savings
CP501	Individual Master File (IMF) ¹ 1 st Notice – Balance Due	1	2,567,411	\$87,481
CP503	IMF 2 nd Notice – Balance Due	1	3,479,171	\$118,707
CP504	4 th Notice – Balance Due	1	4,198,742	\$143,319
CP523	Installment Agreement Default Notice	1	3,416,421	\$116,294
Annual Savings			13,661,745	\$465,801
Waste for Fiscal Years 2005-2007			40,985,235	\$1,397,403
Projected Savings for Fiscal Years 2008-2009			27,323,490	\$931,602
Totals			68,308,725	\$2,329,005

Source: *Our analysis of the Media and Publications function Correspondence Production Services.*

¹ IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

Redesigning Notices and Letters

Notice	Title/Description of Notice	Pages Per Notice	Pages Reduced Annually	Annual Savings
0012C	Individual Return Incomplete for Processing: Form 1040	1	935,826	\$31,868
2273C	Installment Agreement Accepted; Terms Explained	1	1,087,354	\$36,975
2840C	CC IAPND Installment Agreement Confirmation	1	310,732	\$10,382
3217C	Installment Agreement Accepted; Terms Explained	1	1,210,075	\$41,261
CP21B	Data Processing Adjustment Notice, Overpayment of \$1 or More	1	3,547,638	\$120,774
CP22A	Data Processing Adjustment Notice, Balance Due of \$5 or More	1	2,882,194	\$98,428
CP49	Overpayment Adjustment – Offset	1	4,383,921	\$149,487
CP518	Final Notice – Return Delinquency	1	848,864	\$28,847
CP521	Installment Agreement Reminder Notice	1	15,000,000	\$510,000
CP71	Reminder Notice	1	1,455,984	\$49,431
CP71C	Reminder Notice – Balance Due	1	1,949,725	\$66,331
CP89	Annual Installment Agreement Statement	1	5,161,599	\$174,101
Annual Savings			38,773,912	\$1,317,885
Waste for Fiscal Years 2005-2007			116,321,736	\$3,953,655
Projected Savings for Fiscal Years 2008-2009			77,547,824	\$2,635,770
Totals			193,869,560	\$6,589,425

Source: Our analysis of the Media and Publications function Correspondence Production Services.



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Reducing Stuffers Included with Notices and Letters

Notice	Title/Description	Include Information in the Notice	Stuffers Eliminated	Annual Savings
CP12	Math Error, Overpayment of \$1 or More	Notice 1212	2,194,663	\$6,542
CP14	Balance Due \$5 or More, No Math Error	Notice 1212	5,386,317	\$16,057
CP21B	Data Processing Adjustment Notice, Overpayment of \$1 or More	Notice 1212	3,547,638	\$10,576
CP21C	Data Processing Adjustment Notice, Balance Due , \$5, Overpayment <\$1	Notice 1212	1,284,297	\$3,829
CP22A	Data Processing Adjustment Notice, Balance Due of \$5 or More	Notice 1212	2,882,194	\$8,592
CP24	Estimated Tax Discrepancy, Overpayment of \$1 or More	Notice 1212	1,159,725	\$3,457
CP49	Overpayment Adjustment – Offset	Notice 1212	4,383,921	\$13,069
CP501	IMF 1 st Notice – Balance Due	Notice 1212	2,567,411	\$7,654
CP503	IMF 2 nd Notice – Balance Due	Notice 1212	3,479,171	\$10,372
CP504	4 th Notice – Balance Due	Notices 1212 and 1219-B	8,397,484	\$23,690
CP515	1 st Notice – Return Delinquency	Notice 609	2,094,843	\$7,002
CP518	Final Notice – Return Delinquency	Notice 1219-B	848,864	\$2,259
CP521	Installment Agreement Reminder Notice	Notice 1212	21,530,565	\$64,184
CP523	Installment Agreement Default Notice	Notices 1212 and 1219-B	6,832,843	\$19,276
CP71	Reminder Notice	Notice 1212	1,455,984	\$4,340
CP71C	Reminder Notice – Balance Due	Notice 1212	1,949,725	\$5,812
Annual Savings			69,995,645	\$206,711
Waste for Fiscal Years 2005-2007			209,986,935	\$620,133
Projected Savings for Fiscal Years 2008-2009			139,991,290	\$413,422
Totals			349,978,225	\$1,033,555

Source: Our analysis of the Media and Publications function Correspondence Production Services.



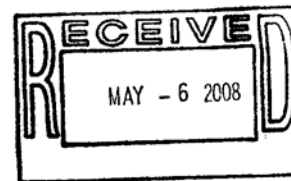
Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

Appendix VI

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308



MAY 06 2008

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably (Audit # 200740024)

I reviewed your subject draft report on the IRS' efforts to reduce publishing and mail costs and agree with your recommendations. I am pleased your report recognizes our efforts in these areas and your findings support the changes we are making.

I also appreciate your acknowledgment that the IRS is already taking actions to address the concerns raised in your report. For example, Media and Publications partnered with Field Assistance to enhance communications and to improve internal controls to maintain an adequate inventory at the Taxpayer Assistance Centers (TAC). As your report indicates, Field Assistance issued guidance to all TAC managers requiring a balance between the proper amount of tax products for distribution to taxpayers with effective management of tax products to reduce waste.

In addition, Media and Publications launched a new Order and Subscription Management System (OSMS) in February 2008 to allow employees to use the IRS' intranet to order products and update the Internal Management Document Distribution System (IMDDS). Future enhancements of the OSMS will include an automated process to validate Order Point Numbers and distribution quantities. The Order Point Numbers help pinpoint employee locations throughout the IRS and deliver products to employees who need them. Annual validation surveys will also be conducted and offices that do not respond will be removed.

We agree we need to improve efficiencies in designing and providing products in a more cost efficient manner. We appreciate your acknowledgement that controlling and accounting for the IRS' publishing and postal budget is an enormous task. The IRS has more than 100,000 employees and a huge volume and variety of publications, forms, instructions, letters, and notices that are sent to internal and external customers. Deliveries of internal documents are made to more than 8,800 IRS offices nationwide. Tax Forms and Publications produces 981 tax products, and the Media and Publications



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

2

Publishing division publishes more than 9,000 products each year. We also supply tax products to the 401 TAC offices around the nation that served 1.3 million customer requests for forms and publications in Fiscal Year 2006.

We generally agree with your findings; however, we do have some concerns. Specifically, your report identifies the Fiscal Year 2001 activity for the Notice/Letter Program to be approximately 30 million notices, compared to 183 million in Fiscal Year 2007. During that time period, notice workload was transitioning from the IRS campuses to the Consolidated Print Sites (CPS). The increase in CPS volumes includes that workload transition to the CPS, and is not just representative of increased notice activity.

We also disagree with the outcome measures. The cost benefit outcome measure for Excess Tax Products was projected based on the Balance on Hand Report that is due to Media and Publications on May 31st of the fiscal year. Your report shows that the balance on hand as of May 31st was used to compute the remaining amount for the fiscal year. Your computation does not include usage for the remaining months of the calendar year when 23 percent of forms are distributed to customers. In addition, late legislation impacted a broad number of products for both of the years involved in this review. In Fiscal Year 2006, inventories were impacted by legislation that was passed as a result of Hurricanes Wilma, Rita, and Katrina causing variation in forms ordered in many parts of the country. Delays in the delivery of those products resulted in higher than usual remaining stock levels. In 2007, expiring tax provisions and the Telephone Excise Tax Refunds affected inventory levels. Based on these variables and the need to meet customer demand, we believe the cost of excess products is not accurately represented.

In regards to the outcome measure of Excess Internal Documents, we recently implemented the new Order and Subscription Management System that strengthened controls within IMDDS. Further, we believe our plans to implement training on the modified process will decrease TIGTA's projected cost savings. As for notice and letters savings, while we agree that a review of notices to ensure they use the least possible resources will result in some savings, notices vary in length depending on the taxpayer's situation and some legislated mandates, therefore we cannot agree with your projected outcome measures.

Attached are our specific comments to your recommendations. If you have any questions, please call me at (404) 338-7060 or members of your staff may contact Denise Fayne, Director, Media and Publications at (202) 622-9375.

Attachment



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

Attachment

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should establish a control system to ensure the level of inventory of forms and publications maintained by the Taxpayer Assistance Centers is cost effective.

CORRECTIVE ACTION

We agree with this recommendation. Media and Publications partnered with Field Assistance to improve communications and strengthen internal controls on forms and publication inventory management. Earlier this year, updated inventory management guidelines were developed and shared with all Field Assistance managers. We also revised the Mandatory and Optional Stocking Lists and established requirements to review the lists annually. The lists have been redesigned to more accurately reflect filing season needs.

To enhance efficiency and reduce waste, we modified the ordering process by: 1) creating a Revision Date list allowing TACs to order revised forms when they are revised rather than annually; 2) implemented capability to order tax products in less than full carton increments, and 3) developed training which increases emphasis on inventory management.

IMPLEMENTATION DATE

Completed March 3, 2008

RESPONSIBLE OFFICIALS

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

The Commissioner, Wage and Investment Division, should ensure functional offices are made aware of the significance of the IMDDS and the need to keep it current to prevent the shipment of unnecessary internal documents.

CORRECTIVE ACTION

We agree with this recommendation and have taken, or will take, the following actions:

- a) The initial phase of the new Order and Subscription Management System (OSMS) was launched in February 2008. In addition to using the system to place orders, offices are now able to change Order Point Number information including contact information, number of employees, and the addition/deletion of items from their Internal Management Document Distribution System (IMDDS).



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

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- b) We will develop a Service-wide training module on the Enterprise Learning Management System which, along with a certification process, will help to ensure offices are aware of the significance of the IMDDS and the need to keep it current.

IMPLEMENTATION DATES

- a) Completed February 21, 2008
- b) October 15, 2008

RESPONSIBLE OFFICIAL

Director, Media & Publications, Wage & Investment Division

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 3

The Commissioner, Wage and Investment Division, should establish and implement a system of internal controls to ensure the IMDDS data are current and reliable. This includes conducting a complete reconciliation of offices/order points to ensure functional offices scheduled to receive internal documents have not relocated or disbanded.

CORRECTIVE ACTIONS

We agree with this recommendation and have taken, or will take, the following actions:

- a) The initial phase of the new OSMS was launched in February 2008. To ensure the IMDDS data are current and reliable, OSMS will improve the ability to communicate with the Order Point Number via email when there are changes impacting the number of internal documents in an office.
- b) We will enhance the OSMS to include a process for validating Order Point Numbers and distribution quantities.

IMPLEMENTATION DATES

- a) Completed February 21, 2008
- b) October 15, 2008

RESPONSIBLE OFFICIAL

Director, Media & Publications, Wage & Investment Division

CORRECTIVE ACTION MONITORING PLAN



Improvements in the Distribution and Design of Internal Documents and Tax Publications, Forms, and Notices Could Reduce Costs Considerably

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

RECOMMENDATION 4

The Commissioner, Wage and Investment Division, should enhance the notice improvement process to include reviews of all notices and letters to ensure they use the least possible resources. This includes arranging text to minimize pages, evaluating the cost/benefit to issue taxpayers duplicate copies of notices, eliminating stuffers where the information can be included more economically in the notices, and identifying opportunities to reduce costs by changing the design and presentation of information in notices and letters.

CORRECTIVE ACTION

We agree with this recommendation and have developed a Notice Governance Review Process for new and revised notices. This process includes issuance of a checklist to ensure that proper coordination across business units has taken place, that effectiveness measures have been developed, and that the most efficient delivery and publishing options (including postage impact) have been considered. This process will also include a review of all notices and letters to ensure they use the least possible resources.

IMPLEMENTATION DATE

December 15, 2008

RESPONSIBLE OFFICIAL

Director, Media & Publications, Wage & investment Division

CORRECTIVE ACTION MONITORING PLAN

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