



Treasury Inspector General for Tax Administration Office of Audit

AFFORDABLE CARE ACT: WHILE MUCH HAS BEEN ACCOMPLISHED, THE EXTENT OF ADDITIONAL CONTROLS NEEDED TO IMPLEMENT TAX-EXEMPT HOSPITAL PROVISIONS IS UNCERTAIN

Issued on June 21, 2012

Highlights

Highlights of Report Number: 2012-13-070 to the Internal Revenue Service Acting Commissioner, Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

The Patient Protection and Affordable Care Act (ACA) contains provisions that impact the IRS and tax-exempt hospital organizations. The IRS has made progress establishing controls to assess tax-exempt hospital organization compliance. However, additional work will be required once legal guidance is published. Until guidance is published, the public cannot be assured that the IRS has implemented all controls to ensure compliance with ACA provisions designed to protect those served by tax-exempt hospitals.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of TIGTA's efforts to evaluate the IRS's plans for implementing the various ACA tax provisions. This review addresses the major management challenge of Implementing Health Care and Other Tax Law Changes. The overall objective was to evaluate the IRS's progress in establishing controls to determine whether tax-exempt hospitals comply with select provisions of the ACA.

WHAT TIGTA FOUND

The IRS has made progress establishing controls to determine whether tax-exempt hospitals comply with provisions of the ACA and has already opened reviews of the community benefit activities of approximately 1,700 health care organizations. However, it is difficult to determine at this point how much additional work will be required of the Exempt Organizations function to fully implement controls because legal guidance has not been published. This guidance, which is currently under review, would provide the Exempt Organizations function with a basis for identifying additional controls needed to determine whether tax-exempt hospitals comply with the ACA.

In addition, the Department of the Treasury will be required in the near future to send its first annual report to Congress regarding tax-exempt hospitals. The IRS is responsible for working with the Department of Health and Human Services to gather the data for this report. While communication has been established, the format and timing of receipt of data have not been formalized.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Exempt Organizations, work with the Department of the Treasury to establish a Memorandum of Understanding with the Department of Health and Human Services. The Memorandum of Understanding should take into consideration when information for the annual report to Congress should be received by the IRS and the proper format of the data to ensure it will be timely and usable for the report to Congress.

In response to our report, IRS management agreed with the recommendation. The IRS plans to work with the Department of the Treasury to establish a Memorandum of Understanding with the Department of Health and Human Services that takes into consideration when information for the annual report to Congress should be received and the proper format of the data to ensure it will be timely and usable for the report to Congress.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2012reports/201213070fr.pdf>.