



Treasury Inspector General for Tax Administration Office of Audit

AFFORDABLE CARE ACT: TRACKING OF HEALTH INSURANCE REFORM IMPLEMENTATION FUND COSTS COULD BE IMPROVED

Issued on September 18, 2013

Highlights

Highlights of Report Number: 2013-13-115 to the Internal Revenue Service Chief Financial Officer.

IMPACT ON TAXPAYERS

The IRS has a significant role in implementation of the Affordable Care Act (ACA) with responsibility to implement and oversee the numerous tax law changes. From Fiscal Year 2010 to Fiscal Year 2012, the IRS's reported cost of \$488 million to implement the ACA was paid for by the Health Insurance Reform Implementation Fund (HIRIF) administered by the Department of Health and Human Services. Because implementation of the ACA remains an ongoing effort, it is critical that the IRS has complete and reliable information regarding all costs associated with the implementation in order to effectively manage taxpayer funds devoted to this effort.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS has an adequate process to accurately account for and report selected ACA implementation costs charged to the HIRIF.

WHAT TIGTA FOUND

TIGTA identified several opportunities where the IRS could improve the process it uses to account for and report costs associated with the implementation of the ACA. For example, controls over the tracking of direct labor charges associated with the HIRIF could be improved. TIGTA found that costs charged to HIRIF funding related to direct labor were sometimes inaccurate and not always substantiated by reliable supporting documentation.

TIGTA also found that the IRS did not track all costs associated with implementation of the ACA including costs not charged to the HIRIF. Specifically, the IRS did not account for or attempt to quantify approximately \$67 million of indirect ACA costs incurred for Fiscal Years 2010 through 2012. Indirect costs include, for example, providing employees with workspace and information technology support.

The IRS established a methodology to track ACA costs in its accounting records. However, the IRS accounted for only direct costs, such as labor and contract costs, because it did not believe that indirect costs should be recovered from the HIRIF. The IRS's use of HIRIF funding only for ACA direct costs is consistent with the HIRIF requirements.

However, by not also identifying and tracking indirect costs, the IRS lacks complete information regarding the full cost of ACA implementation. This lack of complete information on ACA implementation costs limits the IRS's ability to accurately report to stakeholders the total resources it applied to the ACA implementation and fully estimate the resources needed in the future for this effort.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Financial Officer: 1) ensure that steps are taken to help identify potential errors in direct labor costs associated with the ACA implementation; 2) develop documentation requirements for direct labor costs reported as attributable to ACA implementation; and 3) revise the methodology used when reporting the total cost of the ACA implementation.

In their response, IRS management agreed with our recommendations. The IRS plans to redistribute guidance on the proper accounting for ACA activities and instructions on maintaining proper documentation. In future reporting on the ACA implementation, the IRS plans to use full costs when appropriate.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2013reports/201313115fr.pdf>.