Treasury Inspector General for Tax Administration
Office of Audit

AFFORDABLE CARE ACT: EXPANDED GUIDANCE PROVIDED ASSISTANCE TO THE EXCHANGES, BUT GREATER ASSURANCE OF THE PROTECTION OF FEDERAL TAX INFORMATION IS NEEDED

Issued on September 16, 2014

Highlights

Highlights of Report Number: 2014-23-070 to the Internal Revenue Service Director, Privacy, Governmental Liaison, and Disclosure.

IMPACT ON TAXPAYERS

Affordable Care Act (ACA) legislation authorized States to create marketplaces, called "Exchanges," to simplify the search for health coverage by providing multiple options in one place. Eligible taxpayers who purchase health insurance through an Exchange may qualify for and request a refundable tax credit to assist with paying their health insurance premium. The ACA authorized the IRS to disclose limited tax return information to the Exchanges when an applicant seeks financial assistance. To protect the confidentiality of the Federal Tax Information (FTI) disclosed to the Exchanges, the IRS has established safeguards the Exchanges must employ. If required safeguards are not established and maintained, FTI is at an increased risk of unauthorized disclosure and use.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS Office of Safeguards has implemented sufficient policies and procedures to ensure that ACA Exchanges are adequately protecting FTI received from the IRS. The IRS is responsible for approving agencies to receive FTI and ensuring that these agencies have controls in place to adequately protect the confidentiality of FTI and prevent its unauthorized disclosure and use.

WHAT TIGTA FOUND

The IRS provided staff dedicated to facilitating the readiness of ACA Exchanges to receive FTI and meet the October 1, 2013, deadline for enrollment for health insurance to begin. Also, TIGTA observed the Office of Safeguards while it conducted on-site reviews of two Exchanges and found its on-site testing procedures to be generally adequate.

However, additional procedures are needed to provide greater assurance that FTI will be protected prior to approving its release. Specifically, IRS procedures did not require the Exchanges or other agencies to submit an initial independent security assessment report that could help to evaluate risk levels and the status of required security controls. The current documentation on which the Office of Safeguards bases its approval decision for release of FTI does not provide sufficient evidence that required controls have been implemented. TIGTA also found deficiencies in procedures related to obtaining signed system security authorizations and ensuring that on-site reviews of agencies that have deployed new systems occur in a timely manner.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Privacy, Governmental Liaison, and Disclosure, ensure that IRS Office of Safeguards' policy and procedures are revised so that independent assessments of security controls and signed system security authorizations are received and reviewed by the Office of Safeguards before approving the release of FTI, and on-site reviews of agencies that have deployed new systems should be prioritized according to risk and scheduled in a timely manner.

IRS management agreed with our recommendations. The IRS plans to require agencies to submit an initial independent security assessment and signed system security authorization. The IRS also plans to develop procedures to use the independent security assessment to validate that controls are implemented as described by the agencies, evaluate risk prior to releasing FTI, and prioritize on-site reviews.

READ THE FULL REPORT

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

http://www.treas.gov/tigta/auditreports/2014reports/201423070fr.pdf.

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