



*Affordable Care Act: Tracking of  
Health Insurance Reform Implementation  
Fund Costs Could Be Improved*

**September 18, 2013**

**Reference Number: 2013-13-115**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

---

Phone Number | 202-622-6500

E-mail Address | [TIGTACommunications@tigta.treas.gov](mailto:TIGTACommunications@tigta.treas.gov)

Website | <http://www.treasury.gov/tigta>



## HIGHLIGHTS

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

## Highlights

**Final Report issued on  
September 18, 2013**

Highlights of Reference 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.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

September 18, 2013

**MEMORANDUM FOR CHIEF FINANCIAL OFFICER**

*Michael E. McKenney*

**FROM:** Michael E. McKenney  
Acting Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved (Audit # 201210315)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) had an adequate process to accurately account for and report selected Affordable Care Act implementation costs charged to the Health Insurance Reform Implementation Fund. This review is included in our Fiscal Year 2013 Annual Audit Plan and addresses the major management challenge of Implementing the Affordable Care Act and Other Tax Law Changes.

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

Copies of this report are also being sent to the IRS managers affected by the report recommendations. If you have any questions, please contact me or Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations).



---

*Affordable Care Act: Tracking of Health Insurance  
Reform Implementation Fund Costs Could Be Improved*

---

*Table of Contents*

**Background** .....Page 1

**Results of Review** .....Page 3

    Some Affordable Care Act Implementation Costs Were  
    Inaccurate or Not Tracked and Supporting Documentation  
    Was Not Always Maintained .....Page 3

Recommendations 1 through 3:.....Page 6

**Appendices**

    Appendix I – Detailed Objective, Scope, and Methodology .....Page 7

    Appendix II – Major Contributors to This Report .....Page 10

    Appendix III – Report Distribution List .....Page 11

    Appendix IV – Outcome Measures.....Page 12

    Appendix V – Management’s Response to the Draft Report .....Page 14



*Affordable Care Act: Tracking of Health Insurance  
Reform Implementation Fund Costs Could Be Improved*

---

*Abbreviations*

|       |   |
|-------|---|
| ACA   | Affordable Care Act                         |
| FTE   | Full-Time Equivalent                        |
| FY    | Fiscal Year                                 |
| HHS   | Department of Health and Human Services     |
| HIRIF | Health Insurance Reform Implementation Fund |
| IRS   | Internal Revenue Service                    |
| SB/SE | Small Business/Self-Employed                |



---

*Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved*

---

## *Background*

The Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010 (collectively referred to as the Affordable Care Act (ACA))<sup>1</sup> contain an extensive array of tax law changes that will present many challenges for the Internal Revenue Service (IRS) in the coming years. The ACA provisions provide incentives and tax breaks to individuals and small businesses to offset health care expenses. They also impose penalties, administered through the tax code, for individuals and businesses that do not obtain health care coverage for themselves or their employees.

While the Department of Health and Human Services (HHS) will take the lead in developing the policy provisions of the ACA, the IRS will administer the law's numerous tax provisions. The IRS estimates that the ACA includes approximately 50 tax provisions, at least eight of which will require the IRS to build new computer applications and business processes that do not exist within the current tax administration system.

The costs associated with implementation of new tax law provisions are normally funded by the IRS via its operating budget, and any additional funds needed are requested in the annual appropriations cycle. However, the ACA legislation also established a \$1 billion Health Insurance Reform Implementation Fund (HIRIF) to pay for the Federal administrative expenses to carry out the ACA. The fund enabled agencies, including the IRS, to begin implementation immediately. The HIRIF is managed by the HHS. The HHS established an allocation account to make defined amounts available to the IRS and other selected agencies. The agency receiving the allocation may obligate up to the amount included in its allocation account. Agencies must ensure that their obligations are used only for "Federal administrative expenses to carry out" the implementation of the ACA. For example, the HHS reported that it used these funds for expenditures on salaries, benefits, and contract expenses related to the implementation of the ACA.

The Government Accountability Office General Counsel<sup>2</sup> concluded, in its assessment of the availability of the fund, that amounts in the fund are available to pay Federal administrative expenses to finance the immediate implementation of the ACA. The Government Accountability Office also noted that the fund, as created in the authorization of the ACA, enabled agencies to begin implementation immediately and not wait for the regular appropriations cycle. The Government Accountability Office further noted that the method in which the fund was

---

<sup>1</sup> Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered section of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

<sup>2</sup> Government Accountability Office, B-321823, *Department of Health and Human Services—Administrative Expenses* (Dec. 6, 2011).



*Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved*

established signified that Congress did not expect the fund to satisfy an ongoing purpose, but to satisfy a more immediate need.

Figure 1 shows that the IRS reported that a total of \$488 million was paid from the HIRIF from Fiscal Year (FY) 2010 to FY 2012 to implement the ACA.

**Figure 1: IRS HIRIF ACA Implementation Costs**

| <b>FYs</b>   | <b>Costs<br/>(in Millions)</b> | <b>Full-Time Equivalents<br/>(FTE)<sup>3</sup></b> |
|--------------|--------------------------------|--|
| 2010         | \$ 21                          | 31   |
| 2011         | \$168                          | 577  |
| 2012         | \$299                          | 664  |
| <b>Total</b> | <b>\$488</b>                   | <b>1,272</b>                                       |

*Source: IRS FY 2014 congressional budget submission.*

The IRS informed us that it does not expect any additional funding from the HIRIF after FY 2012.

This review was performed at the offices of the Chief Financial Officer, Small Business/Self-Employed (SB/SE) Division, and Chief Technology Officer in Washington, D.C., during the period July 2012 through April 2013. 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.

<sup>3</sup> An FTE is a measure of labor hours in which one FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.



---

*Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved*

---

## *Results of Review*

Our review identified several opportunities in which the IRS could improve the process it uses to account for and report costs associated with the implementation of the ACA. Although the IRS stopped receiving funds from the HIRIF at the end of FY 2012, implementation of the ACA remains an ongoing effort, and all FY 2013 and beyond implementation efforts will need to be funded solely from the IRS's operating budget. It therefore remains 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. The IRS informed us that it requested \$360 million and 859 FTEs for FY 2013 to continue implementation of the ACA. However, the IRS did not receive this requested amount for FY 2013.

### ***Some Affordable Care Act Implementation Costs Were Inaccurate or Not Tracked and Supporting Documentation Was Not Always Maintained***

Our review found that the tracking of costs related to the ACA implementation could be improved. Specifically, we found that costs charged to HIRIF funding relating to direct labor were sometimes inaccurate and not always substantiated by reliable supporting documentation. We also found that the IRS did not track all costs associated with implementation of the ACA, including costs not applied to the HIRIF. Specifically, the IRS did not account for or attempt to quantify approximately \$67 million of indirect ACA costs incurred for FYs 2010 through 2012. Indirect costs include, for example, providing employees with workspace and information technology support.

### ***Charges to the HIRIF related to direct labor were sometimes inaccurate and not always substantiated by reliable supporting documentation***

Our review found that controls over the tracking of direct labor charges associated with the implementation of the ACA could be improved. Specifically, we identified 38 IRS employees in two judgmentally<sup>4</sup> selected business units whose travel was charged to the HIRIF in FY 2012, but no portion of their salary and related benefits was charged to the HIRIF. The IRS informed us that its subsequent research indicated that the 38 employees did in fact work a total of at least 1,441 hours on the ACA implementation. This uncharged direct labor was not identified because the IRS did not periodically compare employees whose travel was charged to the HIRIF and

---

<sup>4</sup> A judgmental sample is a nonstatistical sample, the results of which cannot be used to project to the population.



---

*Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved*

---

employees whose direct labor was charged to the HIRIF to help identify potential accounting errors.

Our review also found an unreconciled difference of 6,947 hours or approximately 3.3 FTEs between total FY 2012 direct labor charged to the HIRIF and the summary level supporting documentation maintained by one of the two IRS business units we sampled. The hours charged to the HIRIF exceeded the supporting documentation. We further found that all FY 2012 time reports detailing hours spent daily on the ACA implementation were not maintained for 17 (85 percent) of 20 IRS employees in one of the two business units that we sampled with direct labor charges to the HIRIF. The responsible business unit informed us that, in general, it maintains time reports for only a limited period and that the time reports we requested, relating to early FY 2012, were unavailable. As a result, we were unable to review 274 (16 percent) of the 1,740 hours worked by these 17 employees. The unsupported labor charges we identified were caused by the lack of detailed procedures specifying the minimum documentation that must be maintained by IRS business units regarding employee labor charges to the HIRIF and the need to periodically reconcile direct labor charged to the HIRIF and the summary supporting documentation. In FY 2012, direct labor charged to the HIRIF by the IRS totaled 664 FTEs.

The overall reliability of the IRS's labor charges to the HIRIF was also affected by the lack of detailed staffing estimates for each ACA provision. In June 2012, we reported<sup>5</sup> that a detailed analysis of each provision to determine the amount of staffing necessary by IRS functional area to implement each provision was not always performed. In response to this report, the IRS advised us that it was in the process of developing more detailed staffing estimates for FY 2013. The development of more detailed staffing estimates would also assist the IRS in the future by enabling it to periodically validate that it is correctly accounting for ACA direct labor funded from its operating budget by providing an ongoing comparison of expected and actual results.

**The IRS did not track all costs associated with the implementation of the ACA**

Federal financial accounting standards require the identification of both direct and indirect costs to accurately measure and manage the full cost of Federal programs. Direct costs include, for example, the salaries of staff working directly on the effort and the cost of work done by contractors supporting a specific effort. Indirect costs include, for example, rent, communications, and information technology support.

We found that the IRS did not track all costs associated with implementation of the ACA, including costs not applied to the HIRIF. The IRS did establish a methodology to track ACA costs in its accounting records. However, the IRS informed us that it accounted for only direct

---

<sup>5</sup> Treasury Inspector General for Tax Administration, Ref. No. 2012-43-064, *Affordable Care Act: Planning Efforts for the Tax Provisions of the Patient Protection and Affordable Care Act Appear Adequate; However, the Resource Estimation Process Needs Improvement* (June 2012).



---

*Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved*

---

costs, such as labor and contract costs, because it did not believe indirect costs should be recovered from the HIRIF.

The IRS's use of HIRIF funding for ACA direct labor and contract costs is consistent with the requirement that the HIRIF be used for Federal administrative expenses necessary to carry out the requirements of the ACA. However, by not 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 ACA implementation and fully estimate the resources needed in the future for this effort. We believe that had the IRS identified these costs, it would have been better able to report to stakeholders the full impact of the ACA implementation on its resources.

In FYs 2010 through 2012, the IRS received funds from the HIRIF for annual direct labor and related benefit costs totaling \$162 million cumulatively. However, our review of the IRS's records indicated that it did not account for or attempt to quantify any indirect costs during FYs 2010 through 2012. Based on the IRS's own internal cost accounting guidelines, the indirect costs associated with these direct labor charges likely totaled approximately \$67 million for FYs 2010 through 2012. The excluded indirect costs relate to providing employees with the workspace, support, and ongoing access to the full range of tools and technology support necessary for the performance of their jobs. For example, while the IRS may have been able to place most new employees hired for the ACA in existing leased space, it still had to pay rent on this space, could not use the space for other purposes, and could not consider the space for inclusion in its ongoing space reduction efforts.

**Implementation of the ACA remains an ongoing effort**

In FY 2012, the IRS received \$299 million from the HIRIF to pay for the implementation of the ACA. This funding was in addition to the funding received by the IRS based on its enacted budget. The IRS informed us that it does not anticipate receiving any funding from the HIRIF after FY 2012. The IRS also informed us that its FY 2013 spending plan includes \$360 million to implement the ACA. Because the IRS will not be reimbursed from the HIRIF for FY 2013, all FY 2013 ACA spending is funded from the IRS's operating budget.

The IRS's FY 2014 budget request includes additional funding of \$440 million to fund 1,954 FTEs for continued efforts related to the implementation of the ACA. The largest component of this increase is \$306 million for the implementation of the information technology changes needed to deliver tax credits and other requirements. It therefore continues to remain critical that the IRS develop complete and reliable estimates for all costs associated with the implementation of the ACA and accurately track and report on actual costs devoted to this effort.



---

*Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved*

---

## **Recommendations**

The Chief Financial Officer should:

**Recommendation 1:** When tracking ACA implementation costs, ensure that a periodic comparison is made between employees with travel costs associated with the ACA implementation and employees with direct labor costs associated with the ACA implementation to help identify potential errors requiring further review.

**Management's Response:** The IRS agreed with this recommendation. The Chief Financial Officer will redistribute guidance on the proper accounting for ACA activities and communicate the importance of adhering to guidelines in the established procedures.

**Recommendation 2:** Establish procedures regarding the minimum documentation that must be maintained by IRS business units to substantiate direct labor tracked as expended on the ACA implementation. The procedures should address the need to prepare and retain reconciled summary documentation that lists employees who worked on ACA implementation and total hours worked, as well as supporting documentation such as time reports detailing hours spent daily on ACA activities by each employee.

**Management's Response:** The IRS agreed with this recommendation. The Chief Financial Officer will redistribute instructions on maintaining proper documentation for ACA activities and communicate the importance of adhering to guidelines in the established procedures.

**Recommendation 3:** Revise the methodology used when reporting the total cost of the ACA implementation to include a comprehensive allocation of the costs of providing employees responsible for implementing the ACA with workspace, support, and access to the full range of tools and technology necessary to support the IRS's ACA implementation.

**Management's Response:** The IRS agreed with this recommendation. In future reporting on the ACA implementation, the IRS will use full costs when appropriate.



---

*Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved*

---

## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

Our overall objective was to determine whether the IRS had an adequate process to accurately account for and report selected ACA implementation costs charged to the HIRIF. To accomplish our objective, we:

- I. Determined the procedures used by the IRS to identify, calculate, and record ACA expenses.
  - A. Interviewed responsible Chief Financial Officer and business unit personnel regarding the process followed to identify, calculate, record, and report ACA administrative expenses.
  - B. Obtained any guidance issued by the HHS regarding allowable ACA administrative expenses, expense documentation requirements, and spending reporting requirements.
  - C. Reviewed the procedures and associated internal controls implemented by the IRS to identify, calculate, record, and report ACA administrative expenses.
- II. Determined whether the IRS's current methodology for capturing ACA administrative expenses is reasonable based on cost accounting policies/requirements/regulations and is adequately documented.
  - A. Evaluated whether policies established by the IRS, if implemented as described, can be relied upon to produce reasonably accurate, current, and reliable data regarding ACA administrative expenses.
  - B. Interviewed key coordinators for business units that incur ACA administrative expenses to determine whether the methodology used to calculate ACA administrative expenses is consistent and adheres to policies and procedures implemented by the Chief Financial Officer.
  - C. Evaluated business procedures for identifying and charging ACA administrative expenses to the HIRIF.
- III. Determined whether ACA administrative expenses related to labor, travel, and indirect costs are accurately calculated based on the established costing methodology and substantiated by reliable supporting documentation.



---

*Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved*

---

- A. Judgmentally<sup>1</sup> selected the two largest business units with direct labor costs from the IRS's Integrated Financial System FY 2012 Status of Funds reports. We judgmentally selected the two largest business units (Information Technology organization and SB/SE Division) among the 12 business units participating in the ACA implementation in order to maximize our use of available audit resources and because we did not intend to project our results. We randomly selected the employees reviewed within each business unit.
  - B. Obtained an extract of 744 Information Technology organization and 1,047 SB/SE Division permanent employees whose salary was charged to the HIRIF during FY 2012. From the selected business units, we:
    - 1. Selected two random samples consisting of 20 Information Technology organization and 20 SB/SE Division employees.
    - 2. Reviewed monthly time sheets and other supporting documentation and investigated any variances identified.
    - 3. Compared ACA implementation hours reported with each employee's manager and obtained documentation supporting any instances where the time reported is based on an allocation.
  - C. Evaluated allocated indirect costs charged to the HIRIF during FY 2012 and determined whether the expenses were accurately calculated and supported by complete and reliable documentation.
  - D. Obtained an extract of all Information Technology organization and SB/SE Division employees with operating or training travel charged to the HIRIF in FY 2012 and determined whether those employees performed work on the ACA implementation.
  - E. Analyzed any quality review procedures established by the Chief Financial Officer to ensure that ACA administrative expenses are accurately calculated.
- IV. Reviewed the IRS's reporting of its ACA Funding and Expenditure Status to the HHS and other stakeholders as requested.

---

<sup>1</sup> A judgmental sample is a nonstatistical sample, the results of which cannot be used to project to the population.



*Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved*

---

**Internal controls methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the IRS's policies and procedures for calculating ACA program implementation costs and the reporting of these costs to stakeholders. We evaluated these controls by interviewing management, assessing IRS policy documents, and reviewing IRS calculations of selected ACA implementation costs.

**Review methodology**

This audit focused on selected ACA implementation expenses. Specifically, we reviewed labor, travel, and indirect costs incurred by the IRS in implementing the ACA. We did not review, in detail, expenses related to contracted services and equipment except those included in indirect costs. We further focused our testing on expenditures from FY 2012 HIRIF funding as of October 5, 2012, the most current expenditure data available at the time we initiated our fieldwork. Total FY 2012 expenditures from HIRIF funds as of October 5, 2012, attributable to labor and travel were \$90 million. There were no indirect costs identified in FY 2012.



*Affordable Care Act: Tracking of Health Insurance  
Reform Implementation Fund Costs Could Be Improved*

---

**Appendix II**

*Major Contributors to This Report*

Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations)  
Jeffrey M. Jones, Director  
Jonathan Meyer, Director  
Anthony J. Choma, Audit Manager  
Angela Garner, Lead Auditor  
Mary F. Herberger, Senior Auditor  
Rashme Sawhney, Auditor



---

*Affordable Care Act: Tracking of Health Insurance  
Reform Implementation Fund Costs Could Be Improved*

---

**Appendix III**

*Report Distribution List*

Principal Deputy Commissioner  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Office of the Deputy Commissioner for Services and Enforcement SE  
Chief Technology Officer CTO  
Commissioner, Small Business/Self-Employed Division SE:S  
Director, Affordable Care Act Office, Small Business/Self-Employed Division SE:ACA  
Associate Chief Information Officer, Affordable Care Act (PMO) OS:CTO:ACA  
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  
Audit Liaisons:  
    Chief Financial Officer OS:CFO  
    Chief Technology Officer OS:CTO  
    Commissioner, Small Business/Self-Employed Division SE:S



---

*Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved*

---

## 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:**

- Reliability of Information – Potential; 6,947 direct labor hours related to ACA implementation activities (see page 3).

#### **Methodology Used to Measure the Reported Benefit:**

We found an unreconciled difference of 6,947 hours between total FY 2012 direct labor charged to the HIRIF and the summary supporting documentation maintained by one of two IRS business units we sampled. Our calculation was performed as follows:

Direct labor charged to the HIRIF = 66.79 FTEs<sup>1</sup>

Summary supporting documentation = 63.45 FTEs

FTE Difference (66.79 FTEs - 63.45 FTEs) = 3.34 FTEs

3.34 FTEs X 2,080 hours in FY 2012 = 6,947 hours

#### **Type and Value of Outcome Measure:**

- Reliability of Information – Potential; 274 direct labor hours related to ACA implementation activities (see page 3).

#### **Methodology Used to Measure the Reported Benefit:**

We found that FY 2012 time reports detailing hours spent daily on the ACA implementation were not maintained for 17 (85 percent) of 20 IRS employees in one of two selected business units we sampled with direct labor charges to the HIRIF.

For one of the two business units in our sample selection, a total of 1,740 hours related to hours worked on ACA implementation. However, the summary supporting documentation, including time reports provided to us, detailed a total of 1,466 hours. The responsible business unit

---

<sup>1</sup> An FTE is a measure of labor hours in which one FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.



*Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved*

---

informed us that, in general, it maintains time reports for only a limited period, and the time reports we requested, relating to early FY 2012, were already purged. As a result, we were unable to verify 274 hours (1,740 hours - 1,466 hours).



*Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved*

**Appendix V**

*Management's Response to the Draft Report*



CHIEF FINANCIAL OFFICER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

September 5, 2013

MEMORANDUM FOR MICHAEL E. MCKENNEY  
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:   
Pamela J. LaRue  
Chief Financial Officer

SUBJECT: Draft Audit Report – Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Related Costs Could Be Improved (Audit # 201210315)

The IRS appreciates your review of our use of the Health Insurance Reform Implementation Fund (HIRIF). As you noted, the Affordable Care Act (ACA) legislation established the HIRIF to pay for Federal administrative expenses needed to carry out the ACA. We are pleased you found that the IRS's use of HIRIF funding for ACA labor and contract costs was consistent with the HIRIF's intended purpose of meeting the immediate funding needs associated with ACA implementation.

The IRS takes seriously its obligation to be good stewards of government resources and recognizes it is always important to ensure accurate accounting of resources, especially in the case where funds are made available for a specific purpose and not through our annual appropriations. Therefore, in regard to the use of HIRIF for implementation of ACA, we ensured that the required internal controls for accounting, review, and validation of all HIRIF-related charges were in place. We issued specific guidelines and instructions on accounting for the use of HIRIF that ensured compliance with already established procedures and processes detailed in existing Internal Revenue Manuals and Standard Operating Procedures. Furthermore, recognizing the importance of tracking ACA-specific costs, the IRS also established Internal Order Codes and guidelines for their use to ensure that all ACA-related labor and non-labor costs were appropriately identified and tracked in the financial system.

These actions positioned the IRS to accurately track ACA costs, including those funded by HIRIF. We agree there are some opportunities to further improve the processes we use to account for and report costs associated with implementing ACA by ensuring existing guidelines are implemented consistently across the IRS.



*Affordable Care Act: Tracking of Health Insurance  
Reform Implementation Fund Costs Could Be Improved*

---

2

The IRS agrees with your recommendations and, in most cases, already has procedures in place that address these recommendations. Our detailed comments to your recommendations are discussed in the attachment. If you have any questions, please contact me, or a member of your staff may contact Adina Leach, Associate Chief Financial Officer for Corporate Budget, at (202) 622-8770.

Attachment



---

*Affordable Care Act: Tracking of Health Insurance Reform Implementation Fund Costs Could Be Improved*

---

Attachment

**RECOMMENDATION 1**

The IRS Chief Financial Officer (CFO) should, when tracking ACA implementation costs, ensure a periodic comparison is made between employees with travel costs associated with the ACA implementation and employees with direct labor costs associated with the ACA implementation to help identify potential errors requiring further review.

**CORRECTIVE ACTION**

The IRS agrees with this recommendation. The CFO will redistribute guidance to the appropriate business units on proper accounting for ACA activities contained in existing Internal Revenue Manuals (IRMs) on travel and time and attendance. In addition, the CFO will communicate with the business units on the importance of adhering to guidelines contained in the established procedures.

**RESPONSIBLE OFFICIAL**

Chief Financial Officer

**IMPLEMENTATION DATE**

October 15, 2013

**RECOMMENDATION 2**

The Chief Financial Officer should establish procedures regarding the minimum documentation that must be maintained by IRS business units to substantiate direct labor tracked as expended on the ACA implementation. The procedures should address the need to prepare and retain reconciled summary documentation that lists employees who worked on ACA implementation and total hours worked as well as supporting documentation such as time reports detailing hours spent daily on ACA activities by each employee.

**CORRECTIVE ACTION**

The IRS agrees with this recommendation. The CFO will redistribute instructions to the appropriate business units on maintaining proper documentation for ACA contained in existing IRMs and Standard Operating Procedures on time and attendance. In addition, the CFO will communicate with the business units to highlight the importance of adhering to guidelines contained in the established procedures.

**RESPONSIBLE OFFICIAL**

Chief Financial Officer

**IMPLEMENTATION DATE**

October 15, 2013



---

*Affordable Care Act: Tracking of Health Insurance  
Reform Implementation Fund Costs Could Be Improved*

---

2

**RECOMMENDATION 3**

The Chief Financial Officer should revise the methodology used when reporting the total cost of the ACA implementation to include a comprehensive allocation of the costs of providing employees responsible for implementing the ACA with workspace, support, and access to the full range of tools and technology necessary to support the IRS's ACA implementation.

**CORRECTIVE ACTION**

The IRS agrees with the recommendation and already has a methodology to capture indirect costs associated with its programs. In future reporting on ACA implementation, the IRS will use full costs when appropriate.

**RESPONSIBLE OFFICIAL**

Chief Financial Officer

**IMPLEMENTATION DATE**

Completed