

GAO Highlights

Highlights of [GAO-17-467](#), a report to congressional committees

Why GAO Did This Study

The Patient Protection and Affordable Care Act (PPACA) aims to expand health insurance coverage and affordability. PPACA provides eligible individuals with PTC to help cover the cost of premiums for health plans purchased through a marketplace. CMS maintains the federally facilitated marketplace known as HealthCare.gov. IRS is responsible for processing PTC-related amounts on tax returns. The estimated fiscal year 2016 net outlay for PTC that was refunded to taxpayers was about \$24 billion, while the estimated revenue effect from PTC that taxpayers used to reduce their tax liabilities was about \$2 billion.

GAO was asked to examine improper payments related to PTC. This report assesses the extent to which (1) CMS and IRS assessed the susceptibility of their PTC programs to significant improper payments; (2) CMS properly designed and implemented key control activities related to preventing and detecting improper payments of advance PTC; and (3) IRS properly designed and implemented key control activities related to preventing and detecting improper payments of PTC, including recovering overpayments and reimbursing underpayments of PTC.

GAO reviewed the improper payment susceptibility assessments completed by CMS and IRS; interviewed agency officials; reviewed policies and procedures; and tested statistical samples of (1) CMS applications with advance PTC transactions during the 2016 open enrollment period and (2) income tax returns with PTC transactions processed during the first 9 months of fiscal year 2016.

July 2017

IMPROPER PAYMENTS

Improvements Needed in CMS and IRS Controls over Health Insurance Premium Tax Credit

What GAO Found

In fiscal year 2016, the Department of Health and Human Services' (HHS) Centers for Medicare & Medicaid Services (CMS) assessed its advance premium tax credit (PTC) program as susceptible to significant improper payments. CMS instituted a qualitative method for assessing the susceptibility of its program that was consistent with requirements, including assessing each of the nine required qualitative risk factors. However, CMS stated that it may not report improper payment estimates for the PTC program as required until at least fiscal year 2022 because of the complexity and timing of the process for developing such estimates. As a result, HHS's overall improper payments estimate will continue to be understated, and Congress and others will continue to lack key payment integrity information for monitoring HHS's improper payments. The fiscal year 2016 Internal Revenue Service (IRS) assessment for its PTC program was not consistent with requirements nor did it demonstrate whether the program met applicable thresholds for susceptibility to significant improper payments. Until IRS conducts an appropriate assessment, it will remain uncertain whether IRS should estimate the amount of improper payments for its PTC program.

Although CMS properly designed and implemented control activities related to the accuracy of advance PTC payments, it did not properly design control activities related to preventing and detecting improper payments of advance PTC, such as verifying individuals' eligibility. As a result, CMS is at increased risk of making improper payments of advance PTC to issuers on behalf of individuals.

CMS Key Control Activities Related to Preventing and Detecting Improper Payments of Advance PTC

Centers for Medicare & Medicaid Services (CMS) control activity description	Design ^a	Implementation
Key control activities related to eligibility requirements for advance premium tax credit (PTC)		
Verifying citizenship and lawful presence with electronic data sources	✓	✓
Verifying the identities of individuals	X	X
Verifying residencies	X	X
Preventing duplicate coverage	X	X
Resolving inconsistencies	X	X
Monitoring continued eligibility	X	X
Verifying compliance with tax filing requirements	X	X
Verifying major life changes for enrollment outside of the open enrollment period	X	X
Key control activities related to the accuracy of advance PTC calculations based on incomes and family sizes		
Verifying incomes and family sizes	X	X
Key control activities related to the accuracy of advance PTC payments to issuers		
Accurately generating policy-based payments to issuers based on enrollment data	✓	✓
Properly reviewing and approving issuer payment calculations and reconciliations	✓	✓
Performing compliance reviews for issuers and qualified health plans	✓	✓
Notifying issuers of noncompliance and decertifying issuers	✓	✓

- ✓ Control activities were properly designed to achieve the control objective
- X Control activities were not properly designed to achieve the control objective
- X Control activities that are not properly designed cannot be properly implemented

Source: GAO analysis of CMS control activities. | GAO-17-467

^aGAO did not evaluate whether control activities that were not properly designed were operating as designed.

What GAO Recommends

GAO is making 10 recommendations to HHS. Of these, 2 recommendations are related to complying with annual reporting of advance PTC improper payments estimates, including assuring that CMS expedites the process for reporting such estimates. The 8 remaining recommendations address improving control activities related to eligibility determinations and calculations of advance PTC based on incomes and family sizes. HHS concurred with 7 of the recommendations and neither agreed nor disagreed with the remaining 3 recommendations, which related to improving control activities for verifying identities of individuals, preventing duplicate coverage of individuals receiving minimum essential coverage through their employers, and verifying household incomes and family sizes. GAO continues to believe that actions to implement these 3 recommendations are needed as discussed in the report.

GAO is also making 5 recommendations to IRS. Of these, 1 recommendation focuses on properly assessing the susceptibility of the PTC program to significant improper payments. The remaining 4 recommendations address improving control activities related to processing PTC information on tax returns, such as recovering advance PTC made for individuals who do not meet the eligibility requirements for citizenship or lawful presence. IRS agreed with 2 recommendations, partially agreed with 2 other recommendations, and disagreed with the remaining recommendation. For the 2 partial concurrences, GAO continues to believe that actions to fully implement these recommendations are needed as discussed in the report. Although IRS disagreed with the 1 recommendation related to reviewing tax returns to those who are not reporting shared responsibility payments, the actions IRS described in its comments, if implemented effectively, would address the recommendation.

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IRS did not design and implement certain key control activities related to preventing and detecting PTC improper payments, including recovering excess advance PTC overpayments. For example, IRS did not properly design procedures to routinely check for duplicate employer- or government-sponsored coverage. In addition, in 2015 and 2016, IRS used an ad hoc process for notifying nonfilers of the requirement to file tax returns; however, IRS did not establish procedures for sending these notices regularly during each filing season to facilitate compliance. Without properly designed control activities related to PTC, IRS is at increased risk of making improper payments to individuals.

IRS faces challenges that affect its ability to design and implement procedures related to preventing and detecting PTC improper payments, including recovering advance PTC overpayments and reimbursing advance PTC underpayments. For example, IRS maintains that reduced resources have impaired its ability to implement needed controls. Further, statutory limitations contributed to IRS's inability to fully collect excess advance PTC overpayments and reimburse PTC underpayments and to automatically correct errors in tax returns. GAO previously suggested that IRS seek legislative authority to correct tax returns at filing based on marketplace data. The Department of the Treasury, on behalf of IRS, has submitted proposals for congressional consideration to permit IRS to correct such errors where individuals' information on tax returns does not match corresponding information provided in government databases. Congress has not yet granted this broad authority.

IRS Key Control Activities for Preventing and Detecting Improper Payments of PTC

	Design ^a	Implementation
Key control activities related to the IRS's processing of the PTC		
Verifying citizenship or lawful presence of individuals for PTC eligibility	X	X
Verifying health care coverage of individuals for PTC eligibility	X	X
Verifying individual shared responsibility payment compliance	X	X
Verifying individuals' incomes for calculating PTC-related amounts prior to issuing refunds	X	X
Reviewing tax returns that contain errors	X / ✓	X / ✓
Correcting PTC-related errors on tax returns prior to issuing refunds	X	X
Recovering excess advance PTC repayment amounts	X	X
Notifying nonfilers of the requirement to file tax returns	X	X
Preparing tax returns for nonfiling individuals through ASFR	X	X

X Control activities were not designed to achieve the objective

X Control activities that are not properly designed cannot be properly implemented

✓ Because of resource limitations, IRS established dollar thresholds to limit the number of tax returns with PTC-related amounts for additional reviews by IRS examiners. Although the control activity was not properly designed because of resource limitations, we found that IRS's use of dollar thresholds was properly designed, implemented, and operating as designed

ASFR - Automated Substitute for Return

IRS - Internal Revenue Service

PTC - premium tax credit

Source: GAO analysis of IRS control activities. | GAO-17-467

^aExcept for control activities related to IRS's review of tax returns that contain errors, GAO did not evaluate whether other control activities that were not properly designed were operating as designed.