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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

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July 20, 2015

The Honorable J. Russell George
Treasury Inspector General for Tax Administration
1401 H Street, NW
Washington, DC 20005

Dear Inspector General George:

On July 16, the Committee on Finance held a hearing regarding the Federal Health Insurance Marketplace's (Marketplace) ability to protect the integrity of insurance subsidies under the Patient Protection and Affordable Care Act. In that hearing, the Government Accountability Office (GAO) testified that undercover testers successfully obtained subsidies in 11 out of 12 cases by using falsified Social Security Numbers and other fictitious information. Furthermore, the GAO maintained this coverage through the continued use of fictitious information and the Marketplace failed to detect inconsistencies or respond adequately to failure to provide requested information. This testimony raised serious concerns about the Administration's ability to protect the integrity of both the Premium Tax Credit and cost-sharing reductions.

On July 17, the Internal Revenue Service Commissioner John Koskinen wrote to update me on the use of Premium Tax Credits during the 2015 tax filing season. His letter did not allay these concerns. A critical element in safeguarding the integrity of insurance subsidies is the reconciliation process that occurs when taxpayers file their tax returns and reconcile subsidies received versus the amount they were in fact due. However, as the Committee noted during its recent hearing, this process would not take place in many cases as fraudulent claimants would likely fail to file tax returns and by doing so sidestep the reconciliation process entirely. According to the Commissioner's letter, an astounding 710,000 Advanced Premium Tax Credit (APTC) recipients for tax year 2014 – that is, those who have already received subsidies – failed to either file tax returns during the 2015 filing season or request an extension.

With the average Premium Tax Credit totaling \$3,400, this group of 710,000 recipients likely received more than \$2.4 billion in advanced credit payments alone. While it is likely that not all of these are fraudulent, because of the Marketplace's lax integrity controls there is reason to believe that a significant portion could be. To help the Committee better understand the effectiveness of the Marketplace and state exchange controls, I write to request that you conduct an audit of a large sampling of 2014 APTC recipients who later failed to file a 2015 tax return or seek an extension. Of your sampling, I ask that you examine the applications, correspondence, and other documentation regarding the integrity checks conducted to ensure that the applicants were 1) claiming under their true identities, and 2) qualified for the credit amount.

This request will depend on your obtaining and analyzing documents and other information held by the Centers for Medicare and Medicaid Services, as well as state exchanges. Should you encounter any delays in obtaining that information, I request that you promptly inform the Committee. ~~Should you have any questions about this request, please do not hesitate to contact me at [redacted] or my Committee Secretary at [redacted].~~

Sincerely,



Orrin Hatch
Chairman