



CDSS

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DEPARTMENT OF SOCIAL SERVICES

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EDMUND G. BROWN JR.
GOVERNOR

December 23, 2016

ALL COUNTY LETTER NO. 16-106

TO: ALL COUNTY WELFARE DIRECTORS
ALL COUNTY SPECIAL INVESTIGATIVE UNIT CHIEFS
ALL COUNTY INCOME AND ELIGIBILITY VERIFICATION
SYSTEM COORDINATORS
ALL COUNTY CALIFORNIA WORK OPPORTUNITY AND
RESPONSIBILITY TO KIDS PROGRAM SPECIALISTS
ALL COUNTY CALFRESH PROGRAM SPECIALISTS

SUBJECT: **RE-DISCLOSURE RESTRICTION OF FEDERAL TAX
INFORMATION TO CONTRACTORS**

REFERENCE: [UNITED STATES CODE TITLE 26 - INTERNAL REVENUE CODE
SECTIONS 6103\(p\)\(4\) AND 6103\(l\)\(7\)
INTERNAL REVENUE SERVICE PUBLICATION 1075 "TAX
INFORMATION SECURITY GUIDELINES FOR FEDERAL, STATE
AND LOCAL AGENCIES" \("PUB 1075"\)
MANUAL OF POLICIES AND PROCEDURES SECTION 20-006](#)

REASON FOR THIS TRANSMITTAL

- State Law Change
- Federal Law or Regulation Change
- Court Order
- Clarification Requested by One or More Counties
- Initiated by CDSS

In January and February of 2014, the Internal Revenue Service (IRS) conducted a Safeguard Review of California State departments that receive federal tax information (FTI). This letter is intended to address several findings from the IRS 2014 Safeguard Review. This letter informs county welfare departments (CWDs) of the IRS requirement to refrain from entering FTI into computer systems owned, operated, and administered by contractors. This letter provides guidance to CWDs in order to avoid inputting FTI into contractor-owned systems, which includes the consortia systems, namely, Consortium IV, California Work Opportunity and Responsibility to Kids Information Network, and the Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) and LEADER Replacement System (LRS). These consortia and their systems are commonly referred to as the Statewide Automated Welfare System or

“SAWS.” This all county letter (ACL) encompasses all computer systems that are contracted, including SAWS.

What is FTI data?

FTI is data originally sourced from federal tax returns that the IRS and the Social Security Administration (SSA) provide to human services agencies under Internal Revenue Code (IRC) section 6103(l)(7). (See IRS' Publication 1075 Tax Information Security Guidelines for Federal, State, and Local Agencies (“Pub 1075”) section 1.4 Key Definitions for more information.) However, when a taxpayer provides his or her own information, or a banking institution or employer provides the information, this information is not FTI.

The CWDs currently receive FTI from the California Department of Social Services (CDSS) Welfare Fraud Bureau in the IRS Asset and Beneficiary Earnings Exchange Record (BEER) matches produced as part of the Income and Eligibility Verification System (IEVS). Documents and files containing FTI should always be identifiable as containing “FEDERAL TAX INFORMATION.” Documents and files that do not contain FTI must not be labeled as such.

The IRS prohibits human service agencies from disclosing FTI to contractors (IRC section 6103 (l)(7)). Since the SAWS are owned, operated, and administered by contractors (and not CWDs or CDSS), CWD staff must not store, input, copy, or create FTI within SAWS.

The CWDs currently receive the IRS Asset and BEER matches in a paper format and are required to store that information in a secured environment as described in Pub 1075. The use of Pub 1075 as a guide for safeguarding FTI is required by Manual of Policies and Procedures (MPP) Section 20-006.7 and the IRC 6103(p)(4). These requirements also apply to newly-created FTI in paper and electronic media.

How is new FTI created?

The FTI is received by CWDs in the BEER and IRS Asset matches. New FTI is created when documents or files containing FTI are copied, scanned, faxed, or FTI data is manually typed into a computer system, to name a few examples. These common methods of creating new FTI occur when CWD staff process the BEER and IRS Asset IEVS matches: As staff generate client or third-party letters containing FTI, scan these documents containing FTI into computer systems, or note the processing of BEER or IRS Asset matches in the case comments, journal, or notes sections of the SAWS systems, new FTI is created in computer systems and on paper. It is this process that

generated the redisclosure-to-contractor findings by the IRS during the 2014 IRS Safeguard Review.

The creation of new FTI by referencing the BEER match or IRS Asset match in a computer system is done by way of linking a person to a document or file known to contain FTI. This type of FTI is called "fact of filing" FTI. The BEER and IRS Asset matches contain FTI, which includes the income and asset data of the persons listed in the matches. In order to be listed in a BEER or IRS Asset match, a person must file a federal tax return and provide data that can be included in a BEER or IRS Asset match. Because of this, when a specific person is referenced to a BEER or IRS Asset match, it becomes known that the person filed a federal tax return and the data from their federal tax return is included in the BEER or IRS Asset match. This is how new FTI is created by referencing a person to a match containing FTI. For example, inputting "BEER run date 12/30/2016 non-discrepant" in John Smith's record, or "IRS run date 3/26/15 sending client letter" in Jane Doe's case comments, creates new FTI because all CWDs who read this know that John Smith and Jane Doe were included in matches that contain FTI. (See Attachment A.)

The creation of new FTI is not in and of itself a violation of IRC 6103(l)(7): It is the disclosure of FTI to contractors that occurs when CWD staff conduct these procedures in the SAWS systems that is prohibited by IRC 6103(l)(7). The IRS prohibits human service agencies from disclosing FTI to SAWS. (See Pub 1075 section 5.6 Human Services Agencies – IRC 6103(l)(7).) The CWD staff are restricted from sharing, storing, or referring to FTI within SAWS. Because of this prohibition, counties currently receive the IRS and BEER matches in paper format and are required to store that information in a secure environment separate from SAWS, as described in Pub 1075, Section 4.0, "Secure Storage," and per IRC 6103(p)(4)(B). For this reason, CDSS, in collaboration with the County Welfare Directors Association (CWDA), and county representatives are in the development phase of an electronic web portal and site that will house the IEVS matches that contain FTI, called electronic IEVS (eIEVS).

Electronic IEVS:

The eIEVS portal being developed will be owned, operated, and administered by CDSS. As such, CDSS will be responsible for securing the FTI in eIEVS, and no disclosure of FTI to contractors should occur when CWD staff process the BEER or IRS Asset matches in eIEVS. The eIEVS project team has planned to release an enhancement to the system sometime after its initial implementation in Spring and Summer of 2017, to include a functionality to generate the client letter or third party verification letter requests that include FTI. This enhancement to eIEVS will be determined at a later date and a separate ACL will be provided.

However, during the interim when the eEVS is not available for the counties to generate verification letters, CWDs may continue to use their own computer systems to generate and house client/third party letters containing FTI. These systems must be owned, operated, and maintained by the county and shall be stand-alone systems that do not interface with another contractor system such as SAWS. These systems must also meet the security requirements in Pub 1075.

Required Actions from CWDs:

The IRS found that the SAWS systems contain FTI during the 2014 Safeguard Review. The IRS requires that the CWDs stop entering new FTI into the SAWS systems. This includes no reference to the IRS Asset match, BEER match, FTI, and/or the use of these acronyms in SAWS case notes, comments, or journal. In addition, CWDs are restricted from scanning client or third-party letters that contain FTI, and/or any other document containing FTI into SAWS, including the IRS and BEER matches.

To avoid entering FTI into consortia or any contractor owned and operated system, CWDs must use stand-alone county-owned systems or maintain all FTI in paper form. Regardless, security measures protecting FTI must meet standards provided in IRS Pub 1075. This includes labeling documents and files containing FTI as containing "FEDERAL TAX INFORMATION." Documents and files that do not contain FTI must not be labeled as such.

Until the eEVS is operational, counties will need to continue to store FTI separate from SAWS and generate verification letters in their stand-alone county-owned systems that contain FTI. However, as noted above, verification information or response documents received from the client, or other income or benefit source is not FTI, and CWDs must include that information in the SAWS systems, as supporting documentation for any appropriate eligibility action taken as a result of that verification.

A separate ACL regarding additional information on verification letters containing FTI will be provided in 2017.

Training

All persons who access FTI must be trained in safeguarding FTI and sign a certification affirming their knowledge of the security requirements for FTI. A county-specific FTI safeguard training guide is being developed and will be released in a separate county letter. A portion of that training is attached to this letter as a guide for avoiding entering FTI into consortia/contractor computer systems. (See Attachment A.) The CWDs may also request FTI-related training materials from the CDSS Welfare Fraud Bureau Safeguard Coordinator.

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If you have any questions, please contact the CDSS Welfare Fraud Bureau Safeguard Coordinator at (916) 653-1826, or FraudPrevention@DSS.ca.gov, or your county's IEVS Review Analyst.

Sincerely,

Original Document Signed By:

TODD R. BLAND
Deputy Director
Welfare to Work Division

Attachment

How to Avoid Putting FTI into Consortia Systems

California Department of Social Services
Welfare to Work Division

PROGRAM INTEGRITY BRANCH



Together Making a Difference

Background

Per IRC 6103(I)(7), human service agencies must not disclose FTI to contractors. The Internal Revenue Service (IRS) Publication 1075 Tax Information Security Guidelines for Federal, State, and Local Agencies (“Pub 1075”) states:

“Human services agencies may not contract for services that involve the disclosure of FTI to contractors.”

The three consortia systems are not owned and operated by CDSS or counties and are contracted by counties. By noting the processing of matches in consortia journal/notes/comments, counties disclose FTI to contractors.

In 2011 during an IRS Safeguard Review, the IRS Reviewers noticed the county entered a notation in their consortium system regarding the processing of a BEER match. These reviewers were unable to contact their manager in order to verify this was an unauthorized disclosure and chose not to make this a finding.

In 2014 during the IRS Safeguard Review, all three counties reviewed by the IRS were found to enter FTI into their consortium system by noting the processing of the match.

Until 2014, CDSS was unaware that by noting the processing of a match in a consortium system was a violation of IRC 6103(I)(7).

This tool is being provided as a resource for preventing the unauthorized disclosure of FTI to contractors.

Acronyms

BEER	Beneficiary Earnings Exchange Record
CYA	California Youth Authority
DPM	Deceased Persons Match
FFM	Fleeing Felon Match
FTB	Franchise Tax Board Asset Match
FTI	Federal Tax Information
IEVS	Income and Eligibility Verification System
IFD	Integrated Earnings Clearance / Fraud Detection Match (Wage Match)
IRC	Internal Revenue Code
IRS	Internal Revenue Services Asset Match
NHR	New Hire Registry Match
NPM	Nationwide Prisoner Match
PVS	Payment Verification System
WIM	Welfare Institutions Match

Unacceptable

FFM 1/2/2003	DPM 7/2/2013	IFD 11/22/2007	BEER 8/28/2015
IRS 10/30/2012	PVS 1/15/2003	FTB 9/2/2003	CYA-WIM 4/5/2006
	NPM 5/2/2000	NHR 3/3/2011	

Noting the processing of IEVS matches in consortia systems using the match acronyms “BEER” or “IRS,” regardless of other factors, is unacceptable. This is because the referencing of an individual to a document that contains FTI creates new FTI by linking the person to FTI.

Unacceptable

FFM 1/2/2003	DPM 7/2/2013	IFD 11/22/2007	IEVS 8/28/2015
IEVS 10/30/2012	PVS 1/15/2003	FTB 9/2/2003	CYA-WIM 4/5/2006
	NPM 5/2/2000	NHR 3/3/2011	

Replacing the acronyms for “BEER” and “IRS” with “IEVS” and noting all other matches by their acronym is unacceptable. This is because it is known that “IEVS” represents FTI. By referencing an individual to a document that contains FTI creates new FTI by linking the person to FTI.

Unacceptable

HOT DOG 1/2/2003	CHIPS 7/2/2013	BURGER 11/22/2007	PIZZA 8/28/2015
POPCORN 10/30/2012	RED VELVET 1/15/2003	ICE CREAM 9/2/2003	CHOCOLATE 4/5/2006
	DONUTS 5/2/2000	WINGS 3/3/2011	

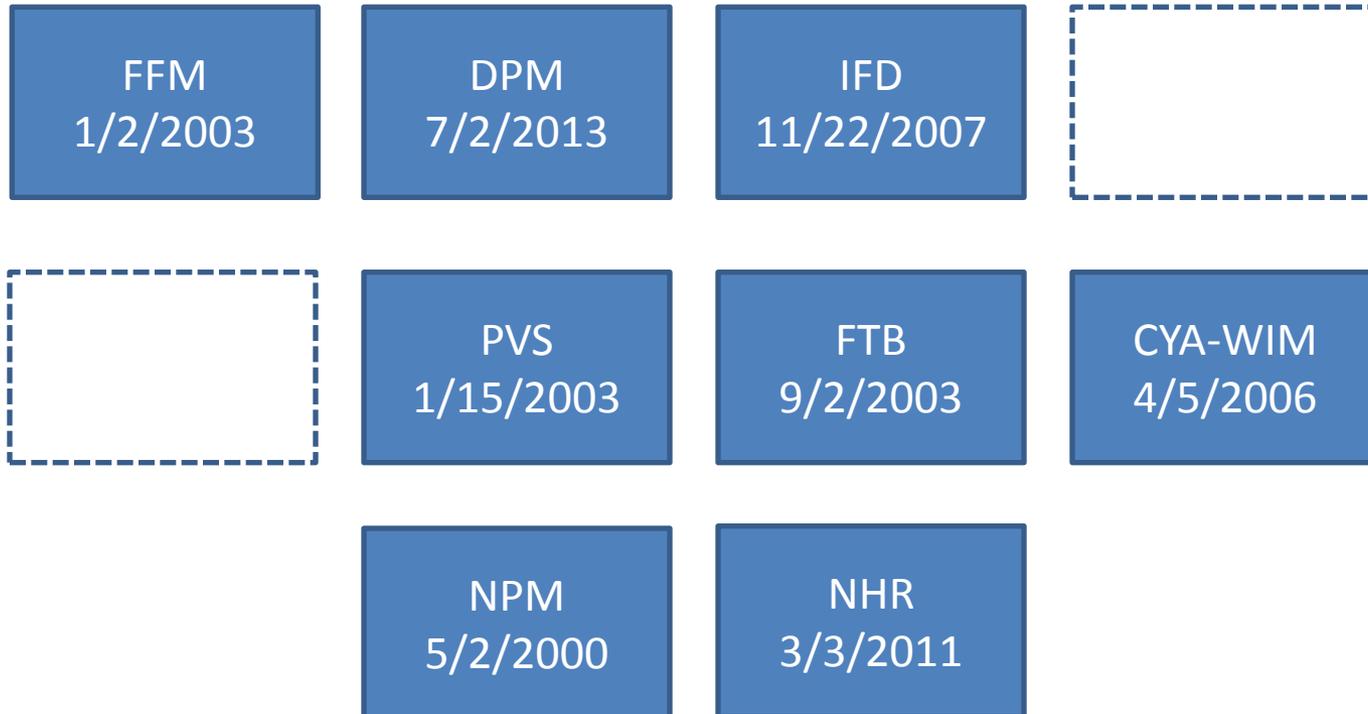
Replacing the acronyms with “codes” is unacceptable, regardless of the type of “code.” This is because it is known what represents FTI. By referencing an individual to a document that contains FTI creates new FTI by linking the person to FTI.

Acceptable

IEVS 1/2/2003	IEVS 7/2/2013	IEVS 11/22/2007	IEVS 8/28/2015
IEVS 10/30/2012	IEVS 1/15/2003	IEVS 9/2/2003	IEVS 4/5/2006
	IEVS 5/2/2000	IEVS 3/3/2011	

However, by noting the processing of IEVS matches in consortia systems using the generic “IEVS” match for *all* ten (10) matches, the fact that an individual is listed on a document containing FTI is sufficiently masked. The data above (including the run date), if listed in case comments/journal/notes, is not FTI and is acceptable. This must be consistent for all ten (10) IEVS matches at all times in order to mask the source of the data and avoid entering FTI into the consortium system.

Acceptable



Another way to avoid entering FTI into a consortium system is not to enter any reference to either the BEER or IRS Asset matches into the case comments/journal/notes of the consortia systems. Counties may use county-owned systems for this purpose if properly secured.