

5 Critical Questions to Ask About FTI Compliance

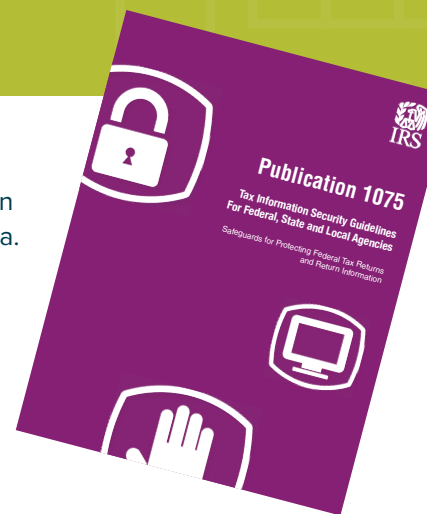


Account Receivables Management (ARM) organizations that process Federal Tax Information (FTI) are likely aware of the IRS mandates guiding use, transmission, and storage of that data. Specifically, Publication 1075 (Pub 1075) and Publication 4812 (Pub 4812) set forth stringent mandates for firms handling FTI data, including those that are subcontracted to do work.

While the requirements of Pubs 1075 and 4812 are well-defined, implementing the proper controls can be complex and ambiguous. The obligations are wide-ranging, involving more than simply making sure file transmissions are secure. Yet, while the end-state of what a firm must do is clear, there is little guidance on how a firm should develop any compliance protocols or training programs.

With a wide range of standards around what controls are needed for transfer and transmission, storage, usage, retention, access, and disposal of FTI data, ARM organizations should think carefully about how they review readiness to handle FTI-related work. Instead of asking if a potential subcontracting firm can process FTI data, go deeper with your questions.

The following five questions can help you better assess the readiness—and the risk—of your subcontracting partners.



Q: How long have you been handling and processing FTI data?

Providers who have a track record of handling FTI data are best equipped to meet the IRS standards. They have devoted considerable time, expertise, and expense to honing their controls and testing their protocols. Barriers to entry for newcomers are high, as the expense of ensuring data security, building separate processing environments, and training staff can quickly compound. Audits can uncover violations that trigger financial and reputational repercussions. To start, ask how long your vendor has been handling FTI data and **be ready to probe further if their program is relatively new.**

Q: When was the last time you were audited?

Audits should be taken seriously as they test controls and can uncover areas of weakness in an overall program. They may be small, leading to tweaks that can easily be implemented. Or, they can be significant, highlighting more systemic risk or poorly designed protocols. Violations do happen, but whether small or large, **what a firm does about the findings is a telling indicator.** How they use the audit results to tighten up and improve their programs can provide insight into their resource commitment and the seriousness with which they treat FTI. Those firms that are regularly audited often have the most thorough and secure environments. Experience has allowed them to act quickly and transparently and understand how to tighten up any gaps to prevent future issues.

Q: How long have you been providing training, and how many of your staff are fully trained and cleared by the IRS?

The Publications mandate that all employees—even those subcontracted—who are responsible for handling, storing, securing, transporting, or the disposal of FTI data must receive the appropriate security training. Lengthy background checks are also required, potentially taking up to six months to complete. Additionally, employees need to receive an annual certification. But the specifics of training—what must be covered and how thoroughly it is reviewed—are largely open to interpretation, leaving firms to develop their own approaches and then reach out to the IRS for approval. A “trial and error” approach for those starting out is a risky proposition as it may expose an ARM company to unnecessary risks. Experience matters.

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The cost and complexity of training may have some subcontracting firms choosing to significantly limit who undergoes training, opting to have a limited number of staff members responsible for FTI data. **But firms that only have a few trained staff members can actually lead to greater risks.** Staff departures, inability to scale for volumes of work, and lack of knowledge by those still developing protocols can quickly cause issues. Violations and audit findings can lead to fines and, when taken to an extreme, a disruption in business. Look for firms with sizeable, seasoned teams, and a continuous-certification approach to training.



Q: How isolated is your FTI processing environment?

Pub 4812 provides very specific guidance on necessary physical access controls if the FTI is reduced to written form. For example, if the FTI is being transformed from data to paper to create a collection notice to a delinquent tax paper, the production floor must be designated a secured, limited access area. This area can be accessed only by FTI authorized/certified personnel. In other words, FTI and non-FTI work should not be processed/produced in the same production area unless all personnel with access to that area are FTI certified.

There are additional physical and space controls. In order to process FTI and non-FTI work within the same facility, a company needs a secure room/space for the FTI work that is enclosed by slab-to-slab walls or other compensatory measures.

If non-FTI and FTI data are processed in the same facility, **learn how the facility is designed and what protocols are in place to limit access and maintain security.**

Q: Do you have protocols for data retention and data disposal?

IRS recordkeeping requirements mandate that all information be held for at least seven years. And, should an audit trigger a request for information, data should be readily available. Holding information for that period of time in an accessible manner can be a challenge for some firms—especially those with less experience or resources. Data disposal is yet another tricky consideration. As FTI is confidential information, purging it requires more than deleting files. **Data must be disposed of securely and in accordance with specific guidelines.** What controls does your subcontracting firm have in place?



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