



Colorado Legislative Council Staff Fiscal Note
STATE
FISCAL IMPACT

Drafting Number: LLS 10-0680
Prime Sponsor(s): Rep. Vaad
 Sen. Mitchell

Date: February 8, 2010
Bill Status: House Finance
Fiscal Analyst: Ron Kirk (303-866-4785)

TITLE: CONCERNING RECOVERY AUDITS FOR GOVERNMENT OVERPAYMENTS OF TAX DOLLARS.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
State Revenue General Fund	up to \$592,000	up to \$500,000
State Expenditures General Fund	\$28,959	\$26,959
FTE Position Change	0.1 FTE	0.1 FTE
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.		
Appropriation Summary for FY 2010-2011: See appropriations section.		
Local Government Impact: None.		

Summary of Legislation

This bill requires the Office of State Planning and Budgeting (OSPB) to contract with a third party to perform an audit of state agencies or other covered entities to determine whether overpayments to individuals, vendors, and others occur as a result of pricing errors, neglected rebates, discounts, unclaimed refunds, or other related general errors. The bill applies to state agencies that expend more than \$25 million annually and authorizes OSPB to retain a portion of any amount recovered due to an audit to defray the administrative costs incurred in contracting for and providing oversight of the recovery audit.

OSPB must promulgate rules, report to the Legislative Audit Committee and Joint Budget Committee by May 1 of each year regarding exemptions from the recovery audit process, and provide a written report to the General Assembly summarizing the contents of all recovery audit contractor reports received during the prior fiscal year by December 31 of each year.

Background

Detailed recovery audit outcome data for four states (Texas, Missouri, Virginia, and North Carolina) were evaluated for purposes of this fiscal note. All of these states contracted out the audit work and paid the audit firm using proceeds from the recovered funds. Of the four states evaluated,

the contingency rate (cost) for auditors was up to 20 percent of the funds recovered (Virginia). The recovery rate ranged from 0.0025 percent in Virginia to 0.0954 percent in Missouri, for an average of 0.0279 percent.

A variety of techniques can be employed to identify and collect recoverable funds. Under typical recovery audit programs, the state provides access to various sources of information including accounting systems, purchasing systems, receiving charts, vendor files, and client files. The recovery audit firm then reviews these records using proprietary software to reveal duplicate payments, pricing errors, and payments for goods or services not received.

State Revenue

State General Fund revenue will increase by up to \$592,000 in FY 2010-11 and up to \$500,000 in FY 2011-12. Over time, as errors are identified and corrected through the audit process, revenue recovered from the program will decrease.

In Colorado, several state agencies already have similar audit programs in place that identify overpayments between the given agency and vendor or individual. As a result, Education, Higher Education, Health Care Policy and Financing, Human Services, Transportation, and the Governor's Office of Information Technology (OIT) have been excluded from this analysis. As an example, OIT have programs in place that identify overpayments and has previously contracted for such audit/recovery functions associated with state billings for services from third party telecommunications vendors. For these agencies, the logistics of the audit process is in place.

A total of \$2.7 billion of the state's budget in FY 2010-11 is expected to be subject to audit as a result of this bill. A recovery rate of 0.0279 percent, or the average of the recovery rates realized by those four states that had recovery audit programs in the past few years, was assumed.

State Expenditures

Expenditures for the Office of State Planning and Budgeting and the Department of Local Affairs are expected to increase \$8,696 and \$20,263, respectively, in FY 2010-11. Of the \$8,696 appropriated to the Office of State Planning and Budgeting, \$6,696 will be used to manage vendor contracts, ensure that vendors receive appropriate information, and review any claims identified by the vendor. The remaining \$2,000 will be reappropriated in the first year to the Department of Law to review any rules promulgated. The Department of Local Affairs estimates that it will cost \$20,263 in FY 2010-11 and each year thereafter to provide auditors 2 copies of the 5,500 payment vouchers that meet the \$25 million threshold requirement in the bill.

State Appropriations

The Office of State Planning and Budgeting requires an appropriation of \$8,696 and 0.1 FTE in FY 2010-11, of which \$2,000 will be reappropriated to the Department of Law. The Department of Local Affairs requires an appropriation of \$20,263 in FY 2010-11. These appropriations should be from the General Fund.

Departments Contacted

All Departments