

**STATE
FISCAL IMPACT**

Drafting Number: LLS 11-0937
Prime Sponsor(s): Rep. Becker
 Sen. Steadman

Date: May 3, 2011
Bill Status: House Finance
Fiscal Analyst: Kerry White (303-866-3469)

TITLE: CONCERNING RECOVERY AUDITS.

Fiscal Impact Summary	FY 2011-2012	FY 2012-2013	FY 2013-2014
State Revenue Cash Funds Recovery Audit Cash Fund		Increase - See State Revenue section.	
State Expenditures General Fund Cash Funds Recovery Audit Cash Fund		At least \$58,777 increase - see State Expenditures section.	At least \$58,777 increase - see State Expenditures section.
FTE Position Change		0.8 FTE	0.8 FTE
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.			
Appropriation Summary for FY 2011-2012: None required.			
Local Government Impact: None.			

Summary of Legislation

This bill extends an existing, time-limited recovery audit process under the Office of the State Controller in the Department of Personnel and Administration (DPA). On or before July 1, 2011, and every third year thereafter, the State Controller is directed to contract with a consultant to conduct audits to recover improper payments of fees, gifts, grants, donations, and other state and federal moneys not specifically excluded by law or rule. It establishes a process to exempt all or part of a state agency when a recovery audit is unlikely to yield significant benefits or the state agency, such as the Department of Health Care Policy and Financing, is already subject to recovery audits under federal or state law.

Moneys collected from a recovery audit, appropriated or transferred by the General Assembly are credited to the newly created Recovery Audit Cash Fund and are annually appropriated by the General Assembly to the State Controller to pay contractor fees, state agency recovery audit costs, and any amounts due to the federal government. At the end of the audit cycle, any remaining moneys are transferred to the General Fund or, if required by the constitution, to the fund from which the improper payment was originally made. By June 30, 2013, and every third year thereafter, the State Controller is directed to report on recovery audits to the General Assembly and post this information on its website.

Background

Current law, enacted under House Bill 10-1176, requires the state controller to contract with one or more contractors to perform recovery audits for FY 2007-08, FY 2008-09, and FY 2009-10. Under HB10-1176, the state controller has the authority to recommend to the Legislative Audit and Joint Budget Committees that entire state agencies be exempted from the recovery audit process. Moneys were appropriated under HB10-1176 to pay contractor, staff, and state agency costs, including \$132,716 and 1.8 FTE for FY 2010-11 and \$206,447 and 3.0 FTE for FY 2011-12.

State Revenue

This bill is anticipated to increase state revenue from recovery audits beginning as early as FY 2012-13. As the amount of revenue is dependent on the funds selected for audit and the timing and actual amount of recoveries received, it is not possible to estimate the increase in state revenue.

State Expenditures

Beginning in FY 2012-13, state expenditures will increase to conduct recovery audits. General Fund costs will increase by at least \$58,777 and 0.8 FTE per year beginning in FY 2012-13. Costs for FY 2011-12 are already appropriated to the DPA under HB10-1176 and therefore not included in this fiscal note. Table 1 and the discussion that follows describe the cost components of the bill.

Table 1. Expenditures Under HB11-1307			
Cost Components	FY 2011-12	FY 2012-13	FY 2013-14
Personal Services		\$58,064	\$58,064
FTE		0.8	0.8
Operating Expenses and Capital Outlay		713	713
Recovery Audit Costs		increase	increase
Amounts due the Federal Government		increase	increase
TOTAL		at least \$58,777	at least \$58,777

Personal services and operating costs. Beginning in FY 2012-13, the DPA will require at least 0.8 FTE to liaison between the contractor and affected state departments and provide general support to the recovery audit process. The fiscal note assumes these costs will be financed up front with General Fund, and offset by recoveries. Based on salary costs incurred under HB10-1176, the fiscal note assumes that a General Professional IV will be required at the mid-range salary of \$5,781 per month, prorated to \$58,064 per year. First-year expenditures and ongoing operating costs will be \$713 per year. This analysis assumes that staffing costs could increase or decrease based on the number and types of funds selected for a recovery audit and that any significant change in the level of resources needed will be addressed through the annual budget process.

Recovery audit costs. Individual state agencies may incur costs to assist DPA and consultant(s) in conducting recovery audits. As the amount of costs is dependent on the funds selected for audit, it is not possible to estimate the increase in state expenditures or to identify which state agencies will be affected. However, the fiscal note assumes that state agencies could be partially or fully excluded from the bill because of existing audit practices that comply with current law and therefore that the amount of resources needed by any specific agency will be minimal. For example, to comply with current law, the Colorado Department of Transportation currently expends \$450,000 per year to audit its estimated \$1 billion in annual expenditures and would likely continue in this manner.

Amounts due the federal government. The state is required to repay the federal government for any recoveries collected from improper payments relating to federal programs. The amount of any such payments will be based on actual recoveries received and has not been estimated.

Expenditures Not Included

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are summarized in Table 2.

Table 2. Expenditures Not Included Under HB11-1307*			
Cost Components	FY 2011-12	FY 2012-13	FY 2013-14
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$0	\$5,325	\$5,325
Supplemental Employee Retirement Payments		3,096	3,564
Indirect Costs		-	-
Leased Space		-	-
TOTAL	\$0	\$8,421	\$8,889

*More information is available at: <http://colorado.gov/fiscalnotes>

Departments Contacted

All Departments