

TABLE OF CONTENTS:

EXECUTIVE SUMMARY.....ii
 Introduction and Procurement Summary.....
 Project Status.....
 Issues Encountered During Implementation.....
 Conclusion.....

PROGRAM OVERVIEW.....1
 Historical Information about Recovery Audits in Texas.....
 Comptroller's Implementation Timeline.....

IMPLEMENTATION.....2
 Comptroller Research on Overpayment Recovery Audits.....
 Notable Procurement Information.....
 Audit Exemption Criteria in the Comptroller's Rule.....
 Issues Encountered During Implementation.....

AGENCY AUDITS.....5
 The Recovery Audit Program.....
 Integration with Comptroller Post-Payment Audits.....
 All Agencies Audited Concurrently.....
 Risk to Current Statewide Contract.....
 Current Recovery Audit Status.....
 Recoveries to Date.....
 Final Reports Due.....

APPENDICES.....
 Appendix I - Agencies Subject to Mandatory Recovery Audits.....
 Appendix II - Summary of Consultant's Status Report.....
 Appendix III - Institutions of Higher Education with Current Recovery Audit Contracts.....
 Appendix IV - Research on Governmental Recovery Audits.....

EXECUTIVE SUMMARY

Introduction and Procurement Summary:

In its January 2005 *Staff Performance Report*, the Texas Legislative Budget Board (LBB) recommended that Texas contract for overpayment recovery audits similar to those performed in 1996 by the federal government at the U.S. Department of Defense (DoD). In 2005, the 79th Legislature added Chapter 2115 to the Government Code, requiring Texas' first centralized overpayment recovery audit program. The Comptroller of Public Accounts (Comptroller) is required to contract with one or more consultants to perform the audits at certain state agencies and to summarize to the Legislature before January 1 of each odd-numbered year the audit reports received during the state fiscal biennium ending August 31 of the previous year.

The Comptroller issued a Request for Proposals (RFP) on October 21, 2005. The Comptroller granted contracts to three consultant firms, contingent on successful contract negotiations. However, only one contract was awarded because the firms would not agree to a uniform pricing structure. The final contract was signed on March 13, 2006, with Horn & Associates, Inc. for a competitive contingency fee rate of 13.5 percent on all recovered funds. The state's negotiated rate is substantially lower than the industry average range of 20 to 40 percent as noted in the LBB's *Staff Performance Report* in January 2005.

Project Status: (as of December 19, 2006)

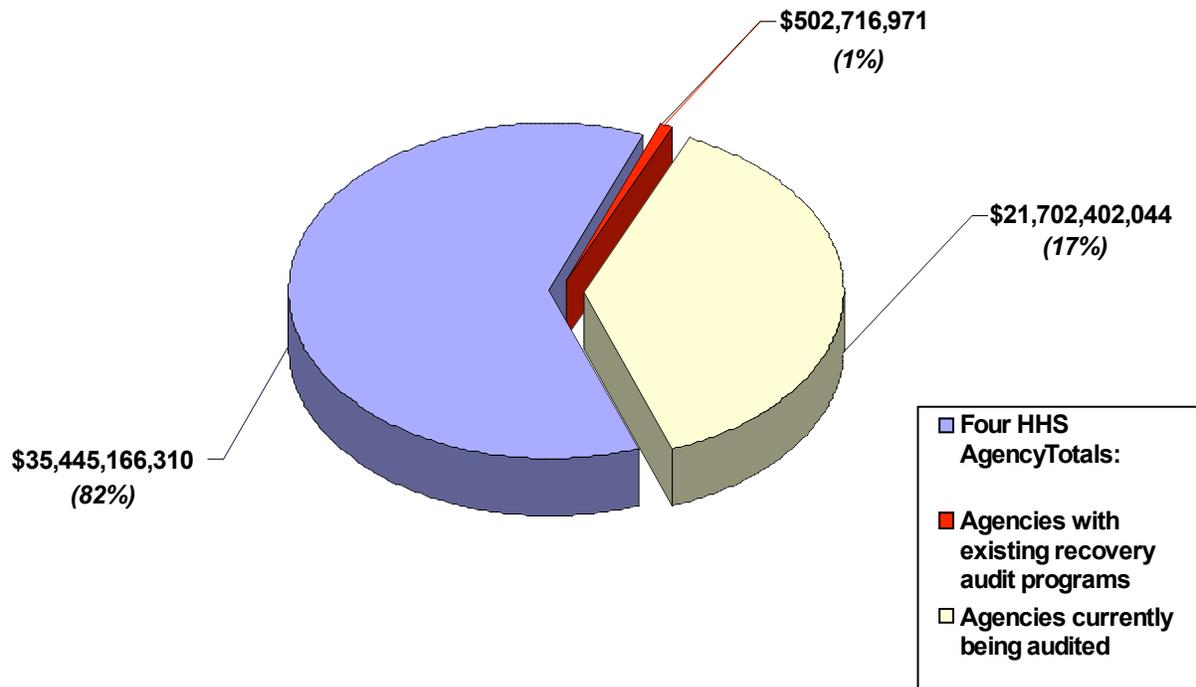
The consultant must complete each agency audit within 18 months, including fieldwork and collections. As of November 30, 2006, transactions totaling \$28,166,000,000 have been digitally analyzed, with \$456,887 in claims submitted to vendors for recovery. A total of \$176,428 has been recovered and deposited in the state treasury as of December 21, 2006.

\$57,650,285,325	→	\$28,166,000,000*	→	\$456,887	→	\$176,428
Total Audit Base (36 Qualifying Agencies)		Amount That Has Been Digitally Analyzed (26 Audits Currently in Progress)		Amount Submitted to Vendors for Recovery		Amount Recovered and Deposited in Treasury
*Includes adjustments						

In fiscal year 2006, 36 agencies qualified for the recovery audit program with the base audit population totaling \$57 billion covering expenditures in fiscal years 2004 and 2005. Of the 36 qualifying agencies, 26 audits are in progress, with the first audit reports scheduled to be issued in March 2007. Three agencies already had existing recovery audit programs. Additionally, four of the five health and human services (HHS) agencies have not provided their data to the recovery audit consultant. On December 6, 2006, the Health and Human Services Commission (HHSC) notified the Comptroller about HHSC's objection to the Comptroller's inclusion of medical service payments in the recovery audit. The Comptroller is responsible for determining

the audit scope and is currently in discussion with HHSC requesting that they provide their data to the recovery audit consultant by January 8, 2007. Below is a chart outlining the impact HHS's exclusion would have on the recovery audit population.

Vendor Expenditures



Issues Encountered During Implementation:

The Comptroller encountered the following issues during implementation:

- Chapter 2115 overlaps with existing programs (Chapter 2112, Utility Billing Audits and Office of Inspector General's medical service payment audits);
- Some restrictive fund types (bond funds and trust funds) prevent audited agency from compensating the consultant;
- No cost benefit in recovering state sales tax paid in error;
- Exemption criteria in current statute restricted to proportion of payments made to vendors limiting recovery opportunities;
- Statute does not define frequency of audits.

Conclusion:

The state's recovery audit program is in the early stages of implementation, with a majority of the audits continuing through the end of calendar year 2007. Additionally, HHSC's questions regarding the inclusion of medical service payments is currently delaying the consultant from analyzing a large portion of the total vendor expenditures (\$35,445,166,310) limiting recovery opportunities. Until it is determined whether medical service payments will be included in the audit scope, the effectiveness of the recovery audit program cannot be determined.

PROGRAM OVERVIEW

Historical Information about Recovery Audits:

The 30-year-old practice of recovery auditing gained momentum in the public sector only in the last ten years. At the direction of Congress, the U.S. Department of Defense Supply Center contracted for one of the first federal recovery audits as part of a demonstration program in 1996. Based on the success of this program, the federal government passed two pieces of legislation that dealt with recovery audits. The *Improper Payments Information Act of 2002 (IPIA)* required federal agencies to annually review all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments, and report the results of improper payment activities to Congress.

The *Defense Authorization Act of 2002* required certain federal agencies to participate in a recovery audit conducted by a third-party. The Act mandated the audit only for federal agencies that spent more than \$500 million on goods and services. All recovered money would return to the account from which it came or to the general treasury. Agencies were required to conduct management improvement programs to correct the causes of the overpayments.

In January 2005, the Legislative Budget Board (LBB) issued a recommendation in its *Staff Performance Report* titled “Recover Certain State Agency Overpayments to Vendors.” The LBB recommended to the Legislature that the Comptroller contract with a third-party firm to implement a recovery audit program for the State of Texas. LBB further recommended that only agencies with over \$100 million in biennial expenditures from appropriated funds be included and that each participating entity keep 50 percent of recovered monies from which it would pay the consultant. According to the LBB report, the state loses approximately \$9 million in all funds annually on erroneous payments. The calculation was based on the typical error rates found in state government agencies. According to the LBB, private sector recovery audit rates were about 0.1 percent of a business’ expenditures in an audit, but public sector audits typically recovered between 0.03 and 0.05 percent. The LBB also reported that the typical recovery audit firm was compensated between 20 and 40 percent of recovered funds as payment for services.

Comptroller’s Implementation Timeline:

The Comptroller began working on the recovery audit program as soon as applicable Texas law took effect on June 17, 2005. Listed are dates of milestones reached throughout the procurement process.

- **June 2005** – The statutes took effect, and the Comptroller established a recovery audit implementation team.
- **July 2005** - The Comptroller’s recovery audit implementation team completed research of recovery audit common practices in the United States. A summary of the team’s research is attached. **See Appendix IV.**
- **October 2005** - The procurement process began when the Comptroller issued *RFP172-M Overpayment Recovery Audit Services for the Comptroller of Public Accounts on Behalf of Participating State Agencies.*
- **December 2005** – Comptroller staff interviewed six respondents.
- **March 2006** – The Comptroller entered into a contract with Horn & Associates, Inc. of Salt Lake City for statewide recovery audit services.

- **April 2006** – The Comptroller initiated recovery audits at six state agencies.
- **May 2006** – The Comptroller's administrative rule 34 Tex. Admin. Code § 5.58 (2006) took effect.
- **June 2006** – Comptroller initiated recovery audits at 24 qualified state agencies and institutions of higher education.

IMPLEMENTATION

Comptroller Research on Overpayment Recovery Audits:

During research and procurement, Comptroller staff noticed that recovery audit firms demonstrate similar techniques for efficiently discovering overpayments. These techniques use proprietary software to detect duplicate payments, pricing errors, and payments for goods or services not received. Firms use data from various sources, including accounting systems, purchasing systems, receiving charts, vendor files, client files, and any data relevant to procuring, receiving, or paying for goods and services. Firms rarely include statistical sampling as a method for discovering overpayments. In addition, some firms conduct a detailed review of contract terms while they compare pricing and receiving details in the contracts against the data they are analyzing.

Most firms also conduct a type of “open credit review” where they submit written requests to vendors for complete statements on the client's accounts. The firms are looking for vendors to declare credits that clients may have failed to record or utilize.

Collection techniques also vary, mostly in regards to the types of staff and techniques used to notify vendors about pending claims. Some firms employ the audit staff for collections, whereas other firms assign collections specialists. Some firms prefer to contact vendors by telephone, whereas others contact vendors in writing or with email when available.

Generally, all firms are paid on a contingency fee basis. However, the rates vary widely. Different charges are sometimes assessed based on the aggregate amount of recoveries. Additionally, some firms charge up to 80 percent on aggregate low-dollar recoveries, but research indicates that this is atypical for large recovery contracts. We also noticed some firms charge contingency fees based on anticipated loss prevention. This is due to corrective actions that either the firms or their clients will employ in the future. However, this practice appears to be limited to specialized recovery audits for specific payment types, such as medical services.

Notable Procurement Information:

The evaluation team interviewed six firms, one of which specialized in medical services recovery audits. Three firms conducted general bills recovery audits for businesses and governmental units in the United States, two firms conducted general bills recovery audits for companies and smaller governmental units in Texas, and one firm conducted extremely specialized medical services audits for state governments.

After evaluation, the Comptroller awarded contracts to *three* consulting firms, each contingent on successful contract negotiations. The benefit to the state of being able to award multiple contracts was that funds could be detected and collected faster, and the state could learn from different techniques it witnessed during the process. The state would have also benefited by

strategically assigning agencies based on firms' recovery strengths. For example, some firms appeared to emphasize techniques for medical services overpayment detection and collection, and some firms appeared to emphasize techniques specific to telecommunications fee recovery.

However, because of vast disparities in each firm's contingency fee structures and because the firms were unwilling to alter their rates, we successfully negotiated agreements with only one awardee. The benefit of awarding the entire statewide audit population to one firm is a contingency fee of 13.5 percent for the entire state. This low rate is contractually tied to the inclusion of medical services expenditures (including Medicaid) in the final audit scope.

Audit Exemption Criteria in the Comptroller's Rule:

The Comptroller utilized research and reports provided by the LBB to determine population exceptions for the state's recovery audit program. In an effort to create additional recovery opportunities for the state, the Comptroller included certain expenditure types in the qualifying calculation that the LBB had not included. Specifically, the Comptroller did not exempt grants to companies and individuals, public assistance payments, real property, lottery prize payments, or travel reimbursements from recovery audit consideration.

Additionally, the Comptroller aimed to protect agencies from the cost of participating in a recovery audit outweighing the agency's anticipated gains from the audits. After establishing a baseline of expenditures to be included in the recovery audit, the Comptroller used totals from those expenditures and the center point of the LBB's research on anticipated recoveries (.04 percent) to compute anticipated gains. Using this computation, the Comptroller exempted agencies whose population of expenditures subject to the audit is less than \$62.5 million (where anticipated gains were less than \$25,000) to prevent loss to the state.

The Comptroller also exempted the following from recovery audit efforts because recovering the funds would not be beneficial to the state:

- State sales tax;
- Payments made to other state entities;
- Payments made under receiverships; and
- Payments recorded by agencies on behalf of other governmental units (such as the Texas Boll Weevil Foundation and Texas Workforce Commission's Local Workforce Development Boards).

Issues Encountered During Implementation:

The Comptroller noted the following issues during implementation of the state's new recovery audit program:

Duplicative Audit Scopes

The following programs overlap with the Chapter 2115 recovery audit's scope to some degree:

Existing Contracts for Recovery Audits

Some institutions of higher education have either concurrently contracted for their own recovery audit or recently had a recovery audit done. Of the eight institutions qualified in our program with their own contracts, we initiated recovery audits at only two. We will use the results of these audits to determine whether it is beneficial to the state to proceed with auditing the other institutions. **See Appendix III.**

Multiple Requirements for Utility Audits

Tex. Gov't Code Ann. §§ 2112.001-2112.005 (Vernon 2000) requires state agencies and institutions of higher education to conduct or contract for an audit of their utility bills if the agency or institution determines the audit would be cost effective. These same utility payments undergo a similar review under the recovery audit statute.

The State Council on Competitive Government (SCCG) mandated and contracted for specialized recovery audits of certain agencies' utility payments. This contract permits the contractor to analyze the state's energy bills to ensure that they are error free and that the state is paying the correct rates and tariffs. The contractor has other duties related to prevention of future overpayments, including the ability to procure cheaper services for the state.

Multiple Versions of Medical Services Audits

The Health and Human Service Commissions' (HHSC) Office of the Inspector General (OIG) conducts audits of HHSC's medical service programs. The OIG coordinates investigative efforts to aggressively recover Medicaid overpayments, particularly those due to fraud. Efforts include conducting audits of third party liabilities, service providers, and tests of eligibility.

During the contracting phase of the Comptroller's recovery audit, the Comptroller encountered auditing firms that specialized in Medicaid and state medical services related recovery audits. These firms conduct similar tests for duplicate payments, missed rebates and discounts, and pricing errors as described by Chapter 2115. They also conduct third-party liability audits, audits of service providers and insurance companies, and tests of eligibility. The Comptroller specifically exempted these tests from the Chapter 2115 program because they were deemed outside of our statutory scope. These firms have the ability to recover money in ways a typical cursory bills recovery audit cannot, but their services would be more appropriately evaluated by the OIG or HHSC.

Restricted Sources of Funding

Chapter 2115 requires state agencies to pay the Comptroller's consultant from recovered funds. However, certain recovered funds are bound by restraints that do not permit the consultant's fees to be paid from these funds. Bond covenant protected funds and certain trust funds are two examples of these restricted funds that are included in the audit program. The Comptroller included these expenditures in our program nonetheless because it is not beneficial to the state or the programs using these funds to avoid recovering overpayments. When funds are recovered that were originally paid from restricted sources, agencies are instructed to compensate the consultant from any available administrative funds.

State Sales Tax

Included in the Section 2115.001 definition of overpayment eligible for recovery audit opportunities is an agency's erroneous payment of state sales taxes. It is not cost beneficial for the state to recoup overpayments that resulted in revenue for the state because it results in a recovery audit cost and a processing cost to the state. The Comptroller currently identifies the incorrect payment of state sales tax in our post-payment audits under Chapter 403, Government Code, and continues to educate all agencies on this issue.

Proportional Exemption Criteria

The recovery audit statute allows the Comptroller to exempt certain agencies from the recovery audit process based on a low proportion of expenditures an agency makes to its vendors. However, during implementation it was noticed that the proportion of vendor payments to total expenditures is not a relevant factor in assessing potential cost benefit to the state. Even if an agency's total vendor payments is only a small percentage of their total expenditures, those payments may still represent a large recovery opportunity. For example, one agency's vendor payments are only 2 percent of their total expenditures. However, the agency's vendor payments total approximately \$717 million. When applying the factor of (.04 percent) to this amount, the estimated recovery rate comes out to about \$287,000. This illustrates a situation where an agency and the state could benefit from a recovery audit.

Frequency of Audits

The statute does not clearly specify the frequency of a recovery audit at a state agency under the program. Additionally, the Comptroller is not aware of any research showing whether repetitive or permanent contracted recovery audits are beneficial. The Comptroller believes the state can successfully conduct its own recovery audits with the periodic assistance of consultants. The state's necessity for consultants appears to be limited to the technology and techniques the consultants use to identify overpayments, because the state already has existing audit and revenue collections resources. The state could integrate a continuous state-conducted recovery audit program into existing audit programs. If the state periodically hires recovery audit consultants, such as every ten years, then the state can continue to learn about new technology and techniques.

AGENCY AUDITS

The Recovery Audit Program

The audits begin with entrance conferences at each agency being audited. The Comptroller's post-payment audit team participates in the conferences so that the team can learn about how the audits are conducted and which controls are being assessed.

Recovery audits are data-driven audits. Audit fieldwork at an agency begins only after the agency provides the necessary data for digital review. The consultant's audit fieldwork is limited to six months aggregate time spent at any one agency. The Comptroller has agreed to consider extending fieldwork at an agency if the Comptroller believes that it is cost beneficial to do so.

The entire audit, including collections that occur after fieldwork is completed, is limited to a period of 18 months from the day the audit begins. Because the duration of the audit in its entirety is 18 months, the Comptroller requires the consultant to provide final management review reports not later than one month after the fieldwork phase ends at each agency. As of December 31, 2006 no agency's audit fieldwork has been completed, although funds are being recovered.

Integration with Comptroller Post-Payment Audits

The Comptroller's recovery audit implementation team is strategically located within the Comptroller's expenditure compliance audit team. The team regularly uses digital analysis techniques to target compliance issues; therefore, the team benefits by concurrently participating in recovery audit activities. The Comptroller is already using what is being learned from the recovery audits. Existing reports meant to find duplicated payments are being upgraded, and new reports are being created to find pricing and discount errors. Comptroller staff is looking for ways to better track and utilize credits and receivables data as a result of the recovery audit agency entrance conferences.

All Agencies Audited Concurrently

The Comptroller initiated six agencies' contracted recovery audits to begin the statewide program: Texas Department of Transportation (TxDoT), Texas Building and Procurement Commission (TBPC), Texas Department of Protective and Regulatory Services (DFPS), Texas Department of Criminal Justice (TDCJ), Texas Southern University (TSU), and the University of Houston (UH). Comptroller staff used a self-constructed risk assessment to determine these initial assignments.

After the first six audits began, the consultant determined that it would be most beneficial to initiate all agencies' audits concurrently, so that the consultant could expedite recovery of funds by working on all agencies' duplicate payments review. Based on the results of that review, the consultant will suggest the order of remaining work to be performed among the agencies. Remaining work will involve detailed contract reviews and documenting the results of any additional data analysis tests that are being performed.

In June 2006, the Comptroller agreed to initiate 24 remaining agencies' audits. Three agencies' audits (Texas A&M University, The University of Texas Health Science Center at San Antonio, and The University of Texas M.D. Anderson Cancer Center) were not initiated because they had or were in the process of undergoing their own contracted recovery audits.

Risk to Current Statewide Contract

On December 6, 2006, HHSC notified the Comptroller through correspondence about HHSC's position on which payments they believe should be included in the recovery audit program. The correspondence followed an October 13, 2006 email from HHSC that effectively placed four of the five HHS audits on hold because of HHSC objections regarding the audit scope. The audits on hold are the HHSC audit (including its Medicaid program), Department of Aging and Disability Services (DADS) audit, Department of Assistive and Rehabilitative Services (DARS) audit, and Department of State Health Services (DSHS) audit. The Comptroller's position is that Medicaid, medical, and other service payments made for HHSC's clients are included in the review in the same way that any other service payments are included, but HHSC's position differs. The Comptroller has responded to HHSC's correspondence and requested that the audits continue not later than January 8, 2007. Discussions are underway between our agencies to try to resolve the issue.

Current Recovery Audit Status

Entrance conferences were held at 30 of the 36 qualifying agencies during a four month period. These audits are in various stages of completion, with the first audit scheduled for completion in

March 2007. Research was completed for three agencies (institutions of higher education) Texas A&M System, Texas A&M Health Science Center, and Texas Engineering Experiment Station, and the audits currently being initiated. The remaining three agencies' (institutions of higher education) audits are delayed until the Comptroller determines that re-auditing a population already subjected to a recovery audit is beneficial. **See Appendix II.**

Recoveries to Date

In September 2006, the first recovered funds were received in the Comptroller's Treasury Operations Division. The state's first payment to the consultant was made in October 2006, and as of November 30, 2006, \$456,887 in overpayment claims have been submitted to vendors for recovery. As of December 21, 2006, \$176,428 was recovered and deposited in the state treasury.

As of December 21, 2006, 26 agency duplicate payment audits are in progress, and two agencies' audits are involved in additional audit fieldwork. \$28,166,000,000 in payment and corrective transactions have been digitally analyzed. Corrective transactions include journal vouchers, credit memos, payment cancellations, refunds, and other entries that affect the detection of overpayments.

Final Reports Due

Final audit reports for the first agencies audited are due in March 2007. **See Appendix II for each agency's audit end date.** However, the Comptroller's contract with Horn & Associates, Inc. allows fieldwork to be extended at an agency if the Comptroller determines that it is cost beneficial to do so. Extending fieldwork could result in delayed reports.

APPENDICES

Appendix I Agencies Subject to Mandatory Recovery Audits

ROLLIP #	ROLLIP AGY	TOTAL EXPENDITURES	VENDOR PAYMENTS	VENDOR %	PROJECTED SAVINGS <i>(based on 0.04% of vendor payments)</i>
701	Texas Education Agency(705)	\$33,917,934,896	\$717,192,948	2.11%	\$286,877
529	Health and Human Services Commission	\$33,601,814,639	\$22,044,290,612	65.60%	\$8,817,716
601	Department of Transportation (342)	\$13,584,799,658	\$11,649,493,268	85.75%	\$4,659,797
539	Department of Aging and Disability Services (324, 340)	\$10,332,094,893	\$8,530,174,848	82.56%	\$3,412,070
537	Department State Health Services	\$6,675,223,224	\$4,211,321,988	63.09%	\$1,684,529
320	Texas Workforce Commission	\$6,325,093,789	\$1,330,786,717	21.04%	\$532,315
696	Texas Department of Criminal Justice	\$5,916,855,721	\$2,265,205,431	38.28%	\$906,082
506	UT MD Anderson Cancer Center	\$2,477,410,112	\$301,805,182	12.18%	\$120,722
530	Department of Family and Protective Services	\$1,935,337,528	\$1,246,067,448	64.39%	\$498,427
362	Texas Lottery Commission	\$1,350,695,464	\$1,267,436,222	93.84%	\$506,974
405	Texas Department of Public Safety	\$1,339,075,589	\$355,853,995	26.57%	\$142,342
721	University of Texas at Austin Department of Assistive & Rehabilitative Services (318, 330, 335, 532)	\$1,104,081,498	\$70,932,723	6.42%	\$28,373
538		\$959,408,809	\$659,378,863	68.73%	\$263,752
711	Texas A&M University(577)	\$888,951,465	\$78,752,540	8.86%	\$31,501
582	Texas Commission on Environmental Quality	\$765,633,954	\$371,191,650	48.48%	\$148,477
454	Texas Department of Insurance (453)	\$754,701,597	\$554,342,577	73.45%	\$221,737
720	University of Texas System UT Health Science Center at San Antonio	\$706,984,570	\$70,358,493	9.95%	\$28,143
745		\$606,002,359	\$122,159,250	20.16%	\$48,864
694	Texas Youth Commission	\$571,199,004	\$167,750,525	29.37%	\$67,100
332	Texas Department of Housing and Community Affairs	\$550,161,965	\$231,540,115	42.09%	\$92,616
802	Texas Parks and Wildlife Department	\$548,853,292	\$187,911,342	34.24%	\$75,165
730	University of Houston	\$507,303,037	\$73,429,783	14.47%	\$29,372
717	Texas Southern University	\$311,871,549	\$87,346,611	28.01%	\$34,939
755	Stephen F. Austin State University	\$277,003,923	\$80,533,973	29.07%	\$32,214
719	Texas State Technical College System	\$269,911,931	\$77,444,639	28.69%	\$30,978
710	Texas A&M University System	\$234,500,388	\$78,406,676	33.44%	\$31,363
724	University of Texas at El Paso	\$231,036,721	\$57,833,899	25.03%	\$23,134
303	Texas Building and Procurement Commission (353)	\$225,151,675	\$93,583,733	41.56%	\$37,433
712	Texas Engineering Experiment Station	\$224,214,265	\$69,167,627	30.85%	\$27,667
313	Department of Information Resources	\$220,919,101	\$193,573,550	87.62%	\$77,429
785	UT Health Center at Tyler	\$193,030,457	\$57,576,659	29.83%	\$23,031
473	Public Utility Commission of Texas	\$186,354,075	\$161,178,254	86.49%	\$64,471
709	Texas A&M University System Health Science Center	\$148,692,718	\$38,429,415	25.84%	\$15,372
455	Railroad Commission of Texas	\$129,251,140	\$50,547,585	39.11%	\$20,219
479	State Office of Risk Management	\$125,349,960	\$69,510,625	55.45%	\$27,804
735	Midwestern State University	\$119,640,521	\$27,775,558	23.22%	\$11,110
	Totals:	\$128,316,545,489	\$57,650,285,325		\$23,060,114

Appendix II

Summary of Consultant's Status Report – p 1 of 2

ROLLUP #	ROLLUP_AGY	VENDOR PAYMENTS	AUDIT STATUS	TRANSACTIONS ANALYZED (Millions)	CLAIMS SUBMITTED	TOTAL CLAIMS COLLECTED	WEEKS ON AUDIT	% DUPLICATES COMPLETE	% OTHER AUDIT COMPLETE	ENTRANCE MEETING	TENTATIVE REPORT DUE DATE	AUDIT ENDS
303	Texas Building and Procurement Commission (353)	\$93,583,732.64	Waiting on agency to review potential duplicates	\$94	\$1,788	\$660	4	95%	0%	12-May-06	Mar-07	Nov-07
313	Department of Information Resources	\$193,573,550.40	Duplicate analysis started on 9/12	\$201			2	100%	0%	28-Jul-06	Nov-07	Dec-07
320	Texas Workforce Commission	\$1,330,786,716.86	Duplicate analysis started 10/5	\$1,851			3	90%	0%	20-Jul-06	Oct-07	Dec-07
332	Texas Department of Housing and Community Affairs	\$231,540,115.19	Duplicate analysis started on 10/19	\$321			2	100%	0%	13-Jul-06	Aug-07	Dec-07
362	Texas Lottery Commission	\$1,267,436,222.24	Duplicate analysis started on 11/14	\$2,806			1	50%	0%	17-Aug-06	Dec-07	Dec-07
405	Texas Department of Public Safety	\$355,853,994.94	Duplicate analysis started on 11/13				1			21-Aug-06	Jul-07	Dec-07
454	Texas Department of Insurance (453)	\$554,342,577.09	Duplicate analysis started on 11/6	\$80			1	50%	0%	31-Jul-06	Jun-07	Dec-07
455	Railroad Commission of Texas	\$50,547,585.06	H&A to follow up on data							1-Aug-06	Dec-07	Dec-07
473	Public Utility Commission of Texas	\$161,178,253.66	Duplicate analysis started 11/7	\$206			1	50%	0%	2-Aug-06	Dec-07	Dec-07
479	State Office of Risk Management	\$69,510,625.30	Duplicate analysis started on 10/31	\$319			1	100%	0%	7-Aug-06	Sep-07	Dec-07
506	UT MD Anderson Cancer Center	\$301,805,182.10								No meeting was held		
529	Health and Human Services Commission	\$22,044,290,611.50	On hold pending scope issues							6-Sep-06		
530	Department of Family and Protective Services	\$1,246,067,447.79	Duplicate analysis started 9/14 - on hold for data and access	\$1,246			1			12-May-06	Aug-07	Nov-07
537	Department State Health Services	\$4,211,321,987.89	On hold pending scope issues							25-Sep-06		
538	Department of Assistive & Rehabilitative Services (318, 330, 335, 532)	\$659,378,862.67	On hold pending scope issues							12-Sep-06		
539	Department of Aging and Disability Services (324, 340)	\$8,530,174,847.75	On hold pending scope issues							21-Sep-06		
582	Texas Commission on Environmental Quality	\$371,191,650.44	Duplicate analysis started on 11/14	\$1,010			1	50%	0%	07-Aug-06	Oct-07	Dec-07
601	Department of Transportation (342)	\$11,649,493,268.33	Audit started 7/18	\$12,111	\$455,099	\$175,768	20	95%	15%	10-May-06	May-07	Nov-07
694	Texas Youth Commission	\$167,750,525.23	Duplicate analysis started on 11/6	\$215			1	80%	0%	07-Aug-06	Aug-07	Dec-07
696	Texas Department of Criminal Justice	\$2,265,205,430.64	Duplicate analysis started on 11/1	\$3,538			3	10%		17-May-06	May-07	Nov-07
701	Texas Education Agency(705)	\$717,192,947.68	Duplicate analysis started on 11/6	\$1,224			1	50%	0%	10-Aug-06	Aug-07	Dec-07

Appendix II

Summary of Consultant's Status Report – p 2 of 2

ROLLUP #	ROLLUP_AGY	VENDOR PAYMENTS	AUDIT STATUS	ANALYZED (Millions)	CLAIMS SUBMITTED	CLAIMS COLLECTED	ON AUDIT	DUPLICATES COMPLETE	AUDIT COMPLETE	ENTRANCE MEETING	REPORT DUE DATE	AUDIT ENDS
709	Texas A&M University System Health Science Center	\$38,429,415.19	Scheduling Entrance Meeting							To be held in Jan. 2007		
710	Texas A&M University System	\$78,406,676.29	Scheduling Entrance Meeting							To be held in Jan. 2007		
711	Texas A&M University(577)	\$78,752,539.54								No meeting was held		
712	Texas Engineering Experiment Station	\$69,167,627.47	Scheduling Entrance Meeting							To be held in Jan. 2007		
717	Texas Southern University	\$87,346,610.99	Ready to start duplicate analysis - TSU to start on 11/1	\$120			4	50%		16-May-06	Mar-07	Nov-07
719	Texas State Technical College System	\$77,444,639.42	Duplicate analysis started on 11/13	\$61			1	30%	0%	24-Jul-06	Sep-07	Dec-07
720	University of Texas System	\$70,358,492.78	Duplicate analysis started on 11/20	\$894			1	20%	0%	17-Jul-06	Jun-07	Dec-07
721	University of Texas at Austin	\$70,932,723.29	Duplicate analysis started on 11/20	\$139			1	20%	0%	17-Jul-06	Jun-07	Dec-07
724	University of Texas at El Paso	\$57,833,899.01	H&A to coordinate data pull in early Dec.							17-Jul-06	Dec-07	Dec-07
730	University of Houston	\$73,429,783.13	Audit started 8/2 - duplicates being researched	\$813			14	95%	50%	21-May-06	Mar-07	Nov-07
735	Midwestern State University	\$27,775,558.45	H&A to coordinate data pull in January							18-Aug-06	Dec-07	Dec-07
745	UT Health Science Center at San Antonio	\$122,159,249.79								No meeting was held		
755	Stephen F. Austin State University	\$80,533,972.88	H&A to coordinate data pull in January	\$153			1	100%	0%	21-Aug-06	Dec-07	Dec-07
785	UT Health Center at Tyler	\$57,576,659.39	Duplicate analysis started on 11/20	\$540			1	80%	0%	23-Aug-06	Dec-07	Dec-07
802	Texas Parks and Wildlife Department	\$187,911,342.29	Waiting on agency to review potential duplicates	\$213			2	80%	0%	04-Aug-06	Jun-07	Dec-07

Legend

Audits in Progress

Audits on Hold

Agencies with their own recovery audit contract

Appendix III

Institutions of Higher Education with Current Recovery Audit Contracts

Agency	Contractor	Contractor's Rate	Time Period of Audit	Money Collected
University of Texas at El Paso ¹	PRG-Schultz	50% of recovered amount	September 1998 - July 2002	\$40,658.87
University of Houston, Main Campus ¹	Bronic Associates	40% of recovered amount	September 2002 - December 2003	\$59,326.91
University of Texas Health Science Center at San Antonio	PRG-Schultz	50% of recovered amount	January 2000 - March 2005	\$3,489.93
University of Texas M.D. Anderson Cancer Center	PRG-Schultz	30% - 38% (based on amount recovered)	N/A *	N/A *
Texas A&M University	RECAP, Inc.	32% - 50% (based on amount recovered)	September 2002 - August 2005	\$36,606.16
* Information not available at the moment				
¹ Agency on current audit list				

Appendix IV – p. 1 of 2
Research on Governmental Recovery Audits

All states evaluated for our research had the same objectives as the State of Texas. The contractor performing the recovery audit should **a.) Detect and recover overpayments to vendors and b.) Recommend improved state agency accounting operations.** Attached is a chart summarizing the Comptroller's research of recovery audits in other states.

	<i>North Carolina</i>	<i>Delaware</i>	<i>Missouri</i>	<i>New York</i>	<i>Virginia</i>
Audit Population	Approximately \$1.3 Billion in annual payments. 40 state agencies, UNC-University Hospital, and all major universities were included	Approximately \$2 Billion annual payments. 22+ agencies, 19 school districts, and 14+ charter schools were included	\$1.75 billion in transactions for fiscal years 1997-2002	No information provided in the RFP	Estimated 2.4 million transactions totaling \$5.9 billion. 215 agencies included in the audit.
Outcome	No information provided	No information provided	1.67 million identified as overpayments and \$1.13 million collected	No information provided	No information provided
Excluded Payments	Medical services, payments in dispute, and University trust funds	Health benefit payments, insurance payments, Medicaid, payroll payments	Payroll and taxes	Construction, operation and maintenance contracts	Health benefit payments, insurance payments, Medicaid, payroll payments
Range of Audit	1997-2003(7 fiscal years)	Phase I 2001-2003(3 fiscal years), Phase II 2004-2005(2 fiscal years), beyond(annually)	1997-2002(6 fiscal years)	1999-2002(4 fiscal years)	Phase I 2002-2004(3 fiscal years), Phase II 2004-2005(2 fiscal years), beyond(annually)
Insurance Requirements	Worker's Compensation Insurance and liability coverage with minimum limits of \$150,000. Commercial General Liability Coverage on an occurrence basis, \$500,000. Automobile Liability Insurance	Professional Liability Insurance for \$1,000,000 per person/\$3,000,000 per occurrence. Must keep in effect a surety bond in the minimum amount of \$100,000.	Contractor must acquire and maintain adequate liability insurance in the form and amount sufficient to protect the State, its agencies, its employees, its clients, and the general public against any such loss, damage and/or expense related to duties performed under the contract. Amount was not disclosed.	Commercial Liability Insurance no less than \$1,000,000 combined single limit per occurrence for Bodily Injury Liability and Property Damage Liability. Automobile Liability Insurance not less than \$1,000,000 combined single limit per accident for bodily injury and property damage.	Commercial General Liability in the amount of \$1,000,000 per occurrence, Automobile Liability in the amount of \$1,000,000 per occurrence. (Only used if motor vehicle is to be used in the contract.) Employer's Liability in the amount of \$100,000 as well as Workers' Compensation for employers of three or more employees.
Audit Duration	Start within two weeks of selection. All audits and reports are due on the final day of the current fiscal year	Begin work within twenty days of the contract award. No time limit was provided for audit period	Begin work no later than 4 months after the beginning of the fiscal year. Recovery attempts for identified overpayments can continue for up to 18 months following the applicable fiscal year	Services must be completed within 6 months of agreement execution	No terms were given by the RFP
Contractors Selected	One Firm	One Firm	One Firm	One Firm	One Firm
Reporting Requirements	Document all findings in a formal report. No specifics provided.	Three weekly reports: Cost Recovery Review detailing transactions reviewed, Amount Recovered Report showing the amounts recovered, and Summary Amount Report showing cumulative totals of reviewed and recovered amounts	One monthly report detailing all recovery amounts and the vendors from which they were recovered	Bi-weekly meetings with staff to report findings, and receive instructions about collection proceedings. One final written report after completion of the audit including written recommendations.	Ongoing status reports throughout audit outlining progress, and one final report once the audit is complete detailing summary information by fiscal year.
Resources Provided by State	2 cubicles, telephone for local calls, internet access, and an State Comptroller email address	No information provided by the RFP.	Contractor shall provide all material, labor facilities, equipment, and supplies	State will not pay for incidental expenses and costs associated with performing the audit	No information provided by the RFP
Collection Methods	No details provided in the RFP	Contractor identifies potential overpayments and communicates back to Division of Accounting. Division of Accounting determines which are collected and the manner of collection. Contractor is then responsible for collection effort	Contractor only identifies overpayments during scheduled audit period. After audit period is complete, the collection period begins. Contractor has eighteen months following applicable fiscal year to recovery funds. The contractor is responsible for all collection activities.	No details provided by the RFP	Contractor identifies overpayments and communicates this to Department of Accounting (DOA). DOA decides which overpayments are collected and the manner in which they are collected. DOA may elect to pursue recoveries on its own

Appendix IV – p. 2 of 2
Research on Governmental Recovery Audits

Each state compensated the contractor using contingency fees, however their methods and scales varied. Below is a summary of each states fee structure.

- **North Carolina – Contingency fee.** Variable percentage based on the amount of funds **recovered**. The state set recovery amount ranges (in dollars), and allowed the contractor to fill in percentages for each range. Contractor was required to bid on original contract period as well as the first and second renewal period. Below was an example of the table provided to the contractor.

Line Item	Total Recovery Amount	Vendor Fee (state as a percentage of actual funds recovered)
001	Up to \$500,000.00	%
002	\$500,000.00 - \$2,500,000.00	%
003	\$2,500,000.00 – and up	%

- **Delaware – Contingency fee.** Contractor proposes dollar amount and required percentage fee for recovery of that amount. Percentage based on the amount of funds **recovered**.
- **Missouri – Contingency fee.** Within **fifteen (15) days** following the conclusion of each month, the contractor shall submit a monthly invoice to each state agency for the total funds recovered. Variable percentage based on the amount of funds **recovered**. In RFP, the state set recovery amount ranges (in dollars), and allowed the contractor to fill in percentages for each range. Contractor was required to bid on original contract period as well as the first, second and third renewal period. The existing contract showed the percentage rate decreasing as the recovered dollar amounts increased. Below is an example from the existing RFP.

Line Item	Total Recovery Amount	Offeror’s Fee (as stated as a percentage of actual funds recovered)
001	Up to \$500,000.00	_____%
002	\$500,000.01 - \$1,000,000.00	_____%
003	\$1,000,000.01 - \$7,000,000.00	_____%
004	\$7,000,000.01 – and up	_____%

- **New York – Contingency fee.** Undisclosed fixed percentage based on the amount of funds **recovered**. On or about the **fifteenth (15) day of each month**, the contractor provides an invoice of money recovered during the previous month.
- **Virginia – Contingency fee.** Agreed fixed percentage, which is undisclosed, based on amount of funds **recovered**.