

Administering Overpayment Recovery Audits in the State of Texas

Fiscal 2004 through 2008

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Susan Combs Texas Comptroller of Public Accounts

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Executive Summary

Introduction and Procurement Summary

The Comptroller of Public Accounts is required to contract with one or more consultants to perform overpayment recovery audits at state agencies and to summarize to the Legislature before Jan. 1 of each odd-numbered year the audit results received during the state fiscal biennium ending Aug. 31 of the previous year.

The Comptroller issued a Request for Proposals (RFP) for recovery audit services on Oct. 21, 2005. The Comptroller selected three consultant firms, contingent on successful contract negotiations. Only one contract was awarded due to lack of agreement on a uniform pricing structure. The lone contract was signed on March 13, 2006, with Horn & Associates, Inc. for a 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, cited in the LBB's *Staff Performance Report* in January 2005. The Comptroller has exercised two contract renewal options, most recently in December 2008. The latest renewal period runs through the end of calendar year 2009 and is the last renewal option on the existing contract with Horn & Associates.

Project Status

The consultant must complete each agency audit within 18 months of the audit entrance conference, including fieldwork and collections. Transactions totaling \$28,166,000,000 have been analyzed, with \$2,111,827 in claims submitted to vendors for recovery. A total of \$1,084,944 has been recovered and deposited in the state treasury.

\$57,650,285,325	→	\$28,166,000,000*	→	\$2,111,827	→	\$1,084,944
Total Audit Base <small>(36 Qualifying Agencies)</small>		Amount That Has been Analyzed <small>(5 Audits Currently in Progress)</small>		Amount Submitted to Vendors for Recovery		Amount Recovered and Deposited in Treasury

**Includes adjustments*

Thirty-six agencies qualified for an overpayment recovery audit with the base audit population totaling \$57 billion covering expenditures in fiscal years 2004 and 2005. Of the 36 qualifying agencies, 29 audits are complete. Additionally, two agencies already had existing recovery audit programs. To prevent overlap and duplication of effort, audits were not performed at the two agencies.

After initial objections by the Health and Human Services Commission (HHSC) regarding the inclusion of medical service payments in the recovery audit, the five health and human services (HHS) agencies' audits are in progress. Expenditure data from fiscal years 2006 and 2007 was also provided for the HHS agencies because of the delayed start. Due to the number of programs HHSC administers and the complexity and structure of each, Horn & Associates determined that auditing HHSC by program would be the most

efficient and effective review method. Horn performed an initial assessment of the Vendor Drug Program and is currently acquiring data from the Texas Medicaid and Healthcare Partnership to examine Medicaid payments made by the state. Horn plans to begin submitting potential payment errors to service providers by February 2009.

Issues Encountered During Contract Administration

The Comptroller encountered some issues during implementation and administration of the current contract. The issues are listed below with recommendations for each should the recovery audit program continue in its current format beyond the existing contract.

- ① Chapter 2115 overlaps with existing programs (Chapter 2112, Utility Billing Audits and HHSC's Office of Inspector General's medical service payment audits).
 - **Recommendation:** Repeal Chapter 2112, Gov't Code which establishes utility audit requirements now covered by Chapter 2215 and the state utility audit program established through the Texas Council on Competitive Government.
- ② No cost benefit in recovering state sales tax paid in error.
 - **Recommendation:** Disqualify Texas local sales taxes from the list of overpayment types deserving of recovery audits.
- ③ Exemption criteria in current statute restricted to proportion of payments made to vendors limiting recovery opportunities.
 - **Recommendation:** Make the proportion of vendor payments irrelevant in the Comptroller's ability to exempt agencies, and permit the Comptroller to use rule making authority to exempt or include agencies based solely on the best interest of the state.
- ④ Statute does not define frequency of audits.
 - **Recommendation:** Enable the Comptroller to determine frequency of audits based on what is determined by the Comptroller to be in the best interest of the state.

Conclusion

The state's first recovery audit program is in its latter stages, with the final five audits currently in progress. The consultant is currently analyzing a large portion of the total vendor expenditures at the HHS agencies with audits likely continuing through the end of calendar year 2009.

To date, the program has generated far less dollar recoveries than anticipated by the LBB and in some cases has created additional administrative costs for those being audited. (See **Appendix III**.) Moreover, Horn & Associates has noted several agencies are doing an excellent job managing their payables resulting in minimal audit findings and recovery opportunities. If the current trend continues, the Comptroller does not anticipate contracting for recovery audit services once the existing contract expires Dec. 31, 2009.

The program has been beneficial to the Comptroller's own expenditure audit program. It allowed the Comptroller's expenditure audit staff to work closely with the contractor and learn new audit techniques, which have been incorporated in the expenditure audit program. The new methods resulted in the discovery of approximately \$627,000 in duplicate payments during regular expenditure audits performed in fiscal 2007 and 2008.

Consequently, we would like to continue to perform the recovery audit process within our own expenditure audit program instead of contracting for recovery audit services as required by Chapter 2115, Gov't Code. This would enable the state to retain all recovered funds and circumvent paying the contingency fee associated with contracting for these types of services. The Comptroller plans to reevaluate the cost benefit of the recovery audit program after the completion of the HHS audits and could provide a cost-benefit-analysis in the next legislative report due in 2011.

Program Overview

Historical Information about Recovery Audits in Texas

In January 2005, the 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. The LBB further recommended that only agencies with more than \$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 VI.)
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, Utah 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) outlining proportional exception criteria took effect.
June 2006	Comptroller initiated recovery audits at 28 qualified state agencies and institutions of higher education.
December 2006	Five HHS audits put on hold due to scope objections by HHS.
January 2007	Eight agency audits canceled following a cost-benefit-analysis. (See Appendix I.)
January through March 2007	Twenty-one agency audits completed.
May 2008	Five HHS audits resumed. Vendor Drug Program review is started.
November 2008	Medicaid review is started.

Implementation

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 six. Horn & Associates used risk analysis to determine it was not cost beneficial to the state to proceed with auditing the other institutions. (See **Appendix V**.)

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 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 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

HHSC's 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 need for consultants appears to be limited to the technology and techniques the consultants use to identify overpayments. 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 10 years, then the state can continue to learn about new technology and techniques.

Agency Audits

The Comptroller utilized research and reports provided by the LBB to determine the audit population 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).

The Recovery Audit Program

The audits begin with entrance conferences at each agency being audited. The Comptroller's recovery audit team participates in the conferences so that the team can learn 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.

Integration with Comptroller Post-Payment Audits

The Comptroller's recovery audit implementation team is strategically located within the Comptroller's expenditure 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. For example, the expenditure audit team has incorporated the statement analysis technique used by Horn & Associates during their reviews into its own audit program. Statement analysis is a review method used by recovery auditors to determine if vendors have unused credits that customers might not be aware of. This method was used successfully by Horn & Associates and has been seamlessly integrated into the expenditure audit program.

Additionally, existing reports meant to find duplicated payments are being upgraded, and new reports are being created to find pricing and discount errors. As a result of these reports, \$627,197 in duplicated payments was found in fiscal 2007 and 2008 by the expenditure audit team. Comptroller staff continues to search for ways to improve the expenditure audit plan through the integration of new data analysis techniques.

All Agencies Audited Concurrently

Initially, the Comptroller initiated six agencies' contracted recovery audits to begin the statewide program: Texas Department of Transportation, Texas Building and Procurement Commission, Texas Department of Family and Protective Services, Texas Department of Criminal Justice, Texas Southern University and the University of Houston. Comptroller staff developed a 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 suggested the order of remaining work to be performed among the agencies. Remaining work involved detailed contract reviews and documenting the results of any additional data analysis tests that were performed. In June 2006, the Comptroller agreed to initiate the 24 remaining agencies' audits. Two agencies' audits (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.

On Dec. 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 Oct. 13, 2006, e-mail from HHSC that effectively placed four of the five HHS audits on hold because of HHSC objections regarding the audit scope. 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. Discussions between our agencies were held throughout the early part of 2007, and the issues were eventually resolved.

Current Recovery Audit Status

Entrance conferences were held at 34 of the 36 qualifying agencies during a four month period. As of Aug. 31, 2008 audit fieldwork including collections has been completed at 29 agencies. During fieldwork, Horn & Associates reviewed expenditures at each agency for any possible erroneous payments made to vendors. The audit process included but was not limited to:

1. Electronic data verification with hard copy records to validate accuracy.
2. Duplicate and unusual payment review including like or exact amounts, similar or same dates, similar or same vendor name or number, and payments to wrong vendors.
3. Complete invoice review against payment amount, invoice detail, and purchase order information.
4. Purchase orders against invoices to ensure variances were correct (e.g., invoice paid for items received versus items ordered).
5. Large contracts and a sampled review of smaller contracts.

Additionally, Horn & Associates performed initial analysis at agencies determined to have low risk and unlikely to have material payment errors. Horn's analysis was based on a review of the agency's data, comparison to other state agencies and in some cases, prior audit results. Horn reviewed the data to isolate potential errors by dollar amounts and transaction counts. They were able to conclude minimal cost benefit in performing a full recovery audit at the University of Texas at El Paso, the Public Utilities Commission, Stephen F. Austin University and Texas A&M University and two of its components. As a result, the agency audits were canceled and only a small electronic review was performed.

The remaining five audits are still in the early stages of fieldwork with collections ongoing for the duration of the audit period. The contractor is currently acquiring data from TMHP to review payments made for the state's Medicaid program.

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 Oct. 2006, and as of Aug. 31, 2008, \$2,111,827 in overpayment claims have been submitted to vendors for recovery with \$1,084,944 recovered and deposited in the state treasury.

Recoveries were divided into eight major categories with a majority of the recoveries falling in the first three categories:

- Hotel Tax,
- Duplicate Payments,
- Overpayments,
- Statement Review,

- Paid Wrong Vendor,
- Cash Discount,
- Interest Paid and
- Freight Overpaid

Hotel tax for employee travel made up roughly 40 percent of the state's recoveries with duplicate payments and statement review recoveries making up 34 percent and 13 percent of recoveries respectively. (See **Appendix IV**.)

Final Reports Due

Final reports for four of the initial six agencies audited have been finalized. Texas Southern University and the University of Houston reports have been issued, and Texas Department of Transportation and Texas Department of Criminal Justice reports are with the respective agency for comment. Additionally, several agencies' reviews yielded minimal findings, so the Comptroller allowed Horn & Associates to issue one consolidated report for these agencies. Twenty-three agency reviews were outlined in the consolidated report.

Reports for the five HHS agencies are expected upon completion of fieldwork, most likely in early 2010. 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 for the HHS agencies.

Appendices

Appendix I: Agencies Subject to Mandatory Recovery Audits

Agency Number	Agency	Total Expenditures	Vendor Payments	Vendor %	Projected Savings (Based on 0.04% of Vendor Payments)
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	\$1,104,081,498	\$70,932,723	6.42%	\$28,373
538	Department of Assistive & Rehabilitative Services (318, 330, 335, 532)	\$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	\$706,984,570	\$70,358,493	9.95%	\$28,143
745	UT Health Science Center at San Antonio	\$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 Science 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

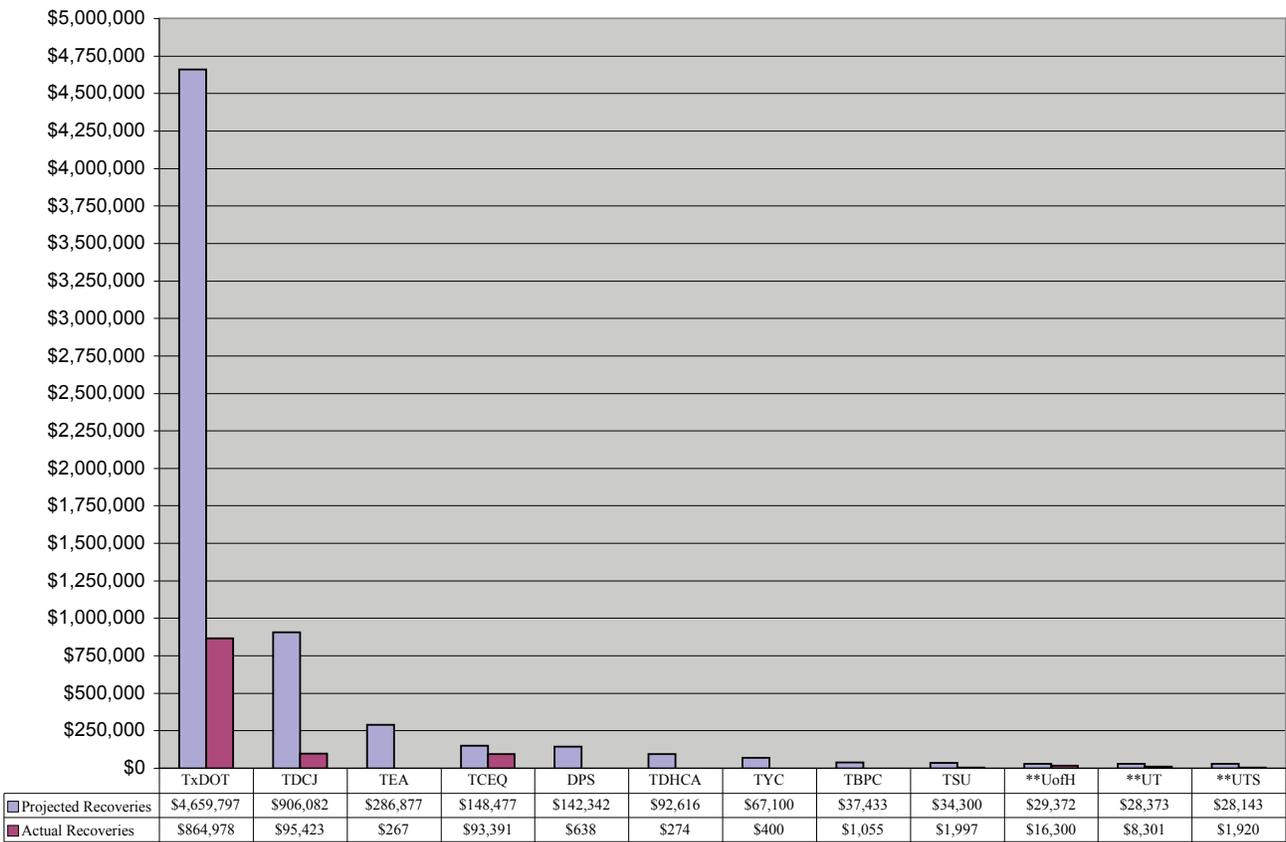
Legend

■ Audits Complete
 ■ Audits in Progress
 ■ Agencies with their own recovery audit contract

Agency Number	Agency	Vendor Payments	Audit Status	Transactions Analyzed (Millions)
303	Texas Building and Procurement Commission (353)	\$93,583,732.64	Audit Complete	\$94
313	Department of Information Resources	\$193,573,550.40	Audit Complete	\$201
320	Texas Workforce Commission	\$1,330,786,716.86	Audit Complete	\$1,851
332	Texas Department of Housing and Community Affairs	\$231,540,115.19	Canceled due to cost benefit	\$321
362	Texas Lottery Commission	\$1,267,436,222.24	Audit Complete	\$2,806
405	Texas Department of Public Safety	\$355,853,994.94	Audit Complete	\$540
454	Texas Department of Insurance (453)	\$554,342,577.09	Audit Complete	\$80
455	Railroad Commission of Texas	\$50,547,585.06	Audit Complete	
473	Public Utility Commission of Texas	\$161,178,253.66	Audit Complete	\$206
479	State Office of Risk Management	\$69,510,625.30	Audit Complete	\$319
506	UT MD Anderson Cancer Center	\$301,805,182.10		
529	Health and Human Services Commission	\$22,044,290,611.50	Medicaid data acquisition in progress	
530	Department of Family and Protective Services	\$1,246,067,447.79	Audit in Progress	\$1,246
537	Department State Health Services	\$4,211,321,987.89	Audit in Progress	
538	Department of Assistive & Rehabilitative Services (318, 330, 335, 532)	\$659,378,862.67	Audit in Progress	
539	Department of Aging and Disability Services (324, 340)	\$8,530,174,847.75	Audit in Progress	
582	Texas Commission on Environmental Quality	\$371,191,650.44	Audit Complete	\$1,010
601	Department of Transportation (342)	\$11,649,493,268.33	Audit Complete	\$12,111
694	Texas Youth Commission	\$167,750,525.23	Audit Complete	\$215
696	Texas Department of Criminal Justice	\$2,265,205,430.64	Audit Complete	\$3,538
701	Texas Education Agency (705)	\$717,192,947.68	Audit Complete	\$1,224
709	Texas A&M University System Health Science Center	\$38,429,415.19	Canceled due to cost benefit	\$0
710	Texas A&M University System	\$78,406,676.29	Canceled due to cost benefit	\$0
711	Texas A&M University (577)	\$78,752,539.54	Canceled due to cost benefit	\$0
712	Texas Engineering Experiment Station	\$69,167,627.47	Canceled due to cost benefit	\$0
717	Texas Southern University	\$87,346,610.99	Audit Complete	\$120
719	Texas State Technical College System	\$77,444,639.42	Duplicate analysis started on 11/13	\$61
720	University of Texas System	\$70,358,492.78	Audit Complete	\$894
721	University of Texas at Austin	\$70,932,723.29	Audit Complete	\$139
724	University of Texas at El Paso	\$57,833,899.01	Canceled due to cost benefit	
730	University of Houston	\$73,429,783.13	Audit Complete	\$813
735	Midwestern State University	\$27,775,558.45	Canceled due to cost benefit	
745	UT Health Science Center at San Antonio	\$122,159,249.79		
755	Stephen F. Austin State University	\$80,533,972.88	Canceled due to cost benefit	\$153
785	UT Health Science Center at Tyler	\$57,576,659.39	Canceled due to cost benefit	\$540
802	Texas Parks and Wildlife Department	\$187,911,342.29	Audit Complete	\$213

Claims Submitted	Total Claims Collected	Weeks on Audit	% Duplicates Complete	% Other Audit Complete	Entrance Meeting	Tentative Report Due Date	Audit Ends
\$11,499	\$1,056		100%	100%	12-May-06	Mar-07	Nov-07
\$0	\$0		100%	100%	28-Jul-06	Nov-07	Dec-07
\$5,026	\$0		100%	100%	20-Jul-06	Oct-07	Dec-07
\$952	\$274		100%	100%	13-Jul-06	Aug-07	Dec-07
\$0	\$0		100%	100%	17-Aug-06	Dec-07	Dec-07
\$3,688	\$638		100%	100%	21-Aug-06	Jul-07	Dec-07
\$209	\$0		100%	100%	31-Jul-06	Jun-07	Dec-07
\$0	\$0		100%	100%	1-Aug-06	Dec-07	Dec-07
\$0	\$0		100%	100%	2-Aug-06	Dec-07	Dec-07
\$0	\$0		100%	100%	7-Aug-06	Sep-07	Dec-07
					No meeting held		
					6-Sep-06	Jan-09	Dec-09
		5			12-May-06	Jan-09	Dec-09
					25-Sep-06	Jan-09	Dec-09
					12-Sep-06	Jan-09	Dec-09
					21-Sep-06	Jan-09	Dec-09
\$107,571	\$93,391		100%	100%	07-Aug-06	Oct-07	Dec-07
\$455,099	\$175,768		100%	100%	10-May-06	May-07	Nov-07
\$400	\$400		100%	100%	07-Aug-06	Aug-07	Dec-07
\$112,180	\$93,759		100%	100%	17-May-06	May-07	Nov-07
\$267	\$267		100%	100%	10-Aug-06	Aug-07	Dec-07
\$0	\$0				22-Feb-07		
\$0	\$0				22-Feb-07		
\$0	\$0				22-Feb-07		
\$0	\$0				22-Feb-07		
\$9,204	\$1,997		100%	100%	16-May-06	Mar-07	Nov-07
\$0	\$0				24-Jul-06	Sep-07	Dec-07
\$53,752	\$1,920		100%	100%	17-Jul-06	Jun-07	Dec-07
\$215,298	\$8,301		100%	100%	17-Jul-06	Jun-07	Dec-07
\$0	\$0				17-Jul-06		
\$161,676	\$12,911		100%	100%	21-May-06	Mar-07	Nov-07
\$0	\$0				18-Aug-06		
					No meeting held		
					21-Aug-06		
					23-Aug-06		
\$4,182	\$0		100%	100%	04-Aug-06	Jun-07	Dec-07

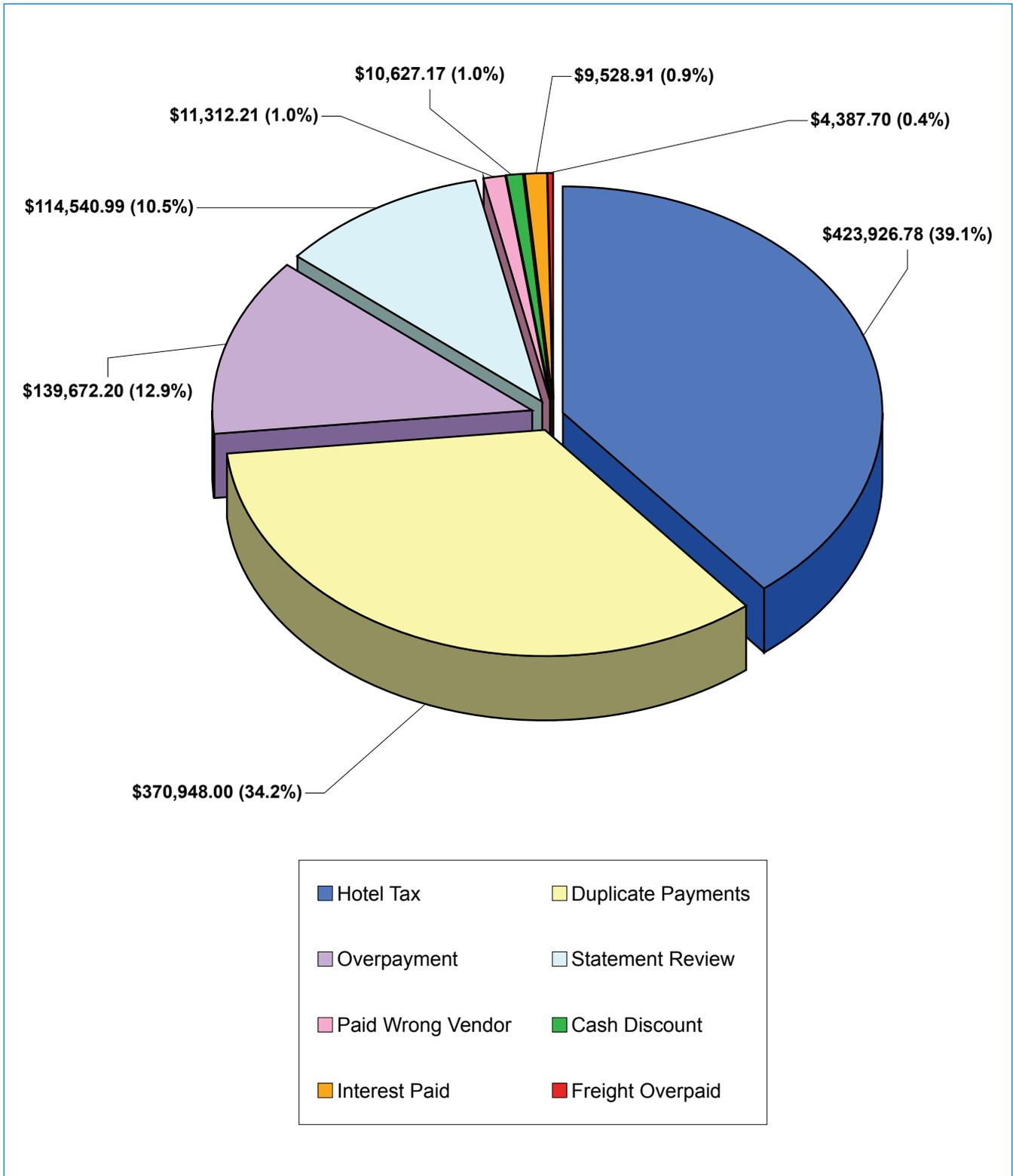
Appendix III: Recovered Funds – Projected vs. Actual



**Includes recoveries from local funds.

Note: Qualified agencies not listed had no recoveries.

Appendix IV: Recovered Funds *(by category)*



Appendix V: 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	Sept. 1998 – July 2002	\$40,658.87
University of Houston, Main Campus ¹	N/A*	N/A*	N/A*	N/A*
University of Texas Health Science Center at San Antonio	PRG-Schultz	50% of recovered amount	Jan. 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, Texas A&M University System, Texas A&M University System Health Science Center and Texas Engineering Experiment Station	RECAP, Inc.	32% - 50% (based on amount recovered)	Sept. 1, 2002 – Sept. 1, 2005	\$36,606.16

*Information not available at the moment

¹Agency on current audit list

Appendix VI: 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.

	North Carolina	Delaware	Missouri	New York	Virginia
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 and payroll payments.	Payroll and taxes.	Construction, operation and maintenance contracts.	Health benefit payments, insurance payments, Medicaid and payroll payments.
Range of Audit	1997-2003 (seven fiscal years)	Phase I 2001-2003 (three fiscal years), Phase II 2004-2005 (two fiscal years), beyond (annually).	1997-2002 (six fiscal years)	1999-2002 (four fiscal years)	Phase I 2002-2004 (three fiscal years), Phase II 2004-2005 (two fiscal years), beyond (annually).
Insurance Requirements	Workers' 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 20 days of the contract award. No time limit was provided for audit period.	Begin work no later than four 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 six months of agreement execution.	No terms were given by the RFP.
Number of 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.	Biweekly 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	Two cubicles, telephone for local calls, internet access and a State Comptroller e-mail 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 efforts.	Contractor only identifies overpayments during scheduled audit period. After audit period is complete, the collection period begins. Contractor has 18 months following applicable fiscal year to recover 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.

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 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 15th 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.

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or write:

Texas Comptroller of Public Accounts
Fiscal Management Division – Fiscal Information Section
111 E. 17th Street
Austin, Texas 78774-0100