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Administering Overpayment Recovery Audits in the State of Texas

Fiscal 2005 through 2010

Report to the 82nd Legislature
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Executive Summary

Introduction and Procurement Summary

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

The Comptroller issued a request for proposals (RFP) for recovery audit services on Oct. 21, 2005. A contract was signed with Horn & Associates, Inc. on March 13, 2006, for a contingency fee of 13.5 percent of all recovered funds. The state's negotiated rate was substantially lower than the industry average of 20 to 40 percent, as cited in the Legislative Budget Board's (LBB's) January 2005 Staff Performance Report. The Comptroller exercised three contract renewal options, with the latest expiring on June 30, 2010.

Project Status

The recovery audit program consisted of two separate audits, a review of qualifying agency accounts payable transactions and a review of the state's Medicaid program. A total of $13.6 million from the two programs has been recovered and deposited in the Treasury.

Accounts Payable

Thirty-six agencies were subject to an overpayment recovery audit of their accounts payable transactions based on qualifying criteria in Texas Government Code Chapter 2115. Of these, 34 agencies were audited; two already had recovery audit programs and were omitted to prevent duplication of effort. The consultant was required to complete the accounts payable audits within 18 months of the audit entrance conference, including fieldwork and collections. Transactions totaling $57.6 billion have been analyzed, with $1.08 million recovered and deposited in the state treasury.

Medicaid

A Medicaid recovery audit program was developed to review claims paid to providers. This audit was performed by PRGX USA, Inc. as a subcontractor for Horn. The audit scope was limited to inpatient hospital claims submitted for payment from 2005 through 2008, accounting for $1.8 billion or roughly 10 percent of all inpatient Medicaid spending. To date, $12.79 million in overpayments have been identified and $12.55 million recovered and deposited in the state treasury.

$12,552,242	→	$1,084,944	→	$13,637,186
Amount Recovered and Deposited in Treasury from the Medicaid Audit		Amount Recovered and Deposited in Treasury from the Accounts Payable Audit		Total Amount Recovered and Deposited in Treasury

Issues Encountered During Contract Administration

The Comptroller's office encountered some issues during various stages of the contract. These are listed below with recommendations for each.

- A provision in the Patient Protection and Affordable Care Act (PPACA) requires states to establish a recovery audit contractor (RAC) program for Medicaid providers by April 1, 2011.

  ➲ **Recommendation:** Allow the Health and Human Services Commission (HHSC) to independently pursue a Medicaid RAC, eliminating this portion of the review from the statewide recovery audit program.

- Removing Medicaid from the recovery audit population eliminates a majority of recovery opportunities, which may make it difficult to obtain a contractor for these audits.

  ➲ **Recommendation:** Repeal Chapter 2115, which requires the Comptroller to contract for recovery audit services, and incorporate these activities into the Comptroller's existing post-payment expenditure audit program.

If the recovery audit program continues in its current format, the Comptroller makes the following recommendations.

- Existing criteria restrict the number of agencies that can be audited based on their proportion of payments made to vendors.

  ➲ **Recommendation:** Permit the Comptroller to use rulemaking authority to exempt or include agencies based solely on the state's best interests.

- State law does not define the frequency of these audits.

  ➲ **Recommendation:** Allow the Comptroller to determine the frequency of auditing based on the state's best interests.

- The state receives no benefit from recovering state sales tax paid in error.

  ➲ **Recommendation:** Remove Texas local sales taxes from the list of overpayment types included in the recovery audits.

- Chapter 2115 overlaps with existing programs (Chapter 2112 utility billing audits and the HHSC Inspector General's medical service payment audits).

  ➲ **Recommendation:** Repeal Chapter 2112, which establishes utility audit requirements now covered by Chapter 2115 and the state utility audit program established through the Texas Council on Competitive Government.

Conclusion

The state's first recovery audit program is complete. The accounts payable review generated far less in recoveries than anticipated by LBB and in some cases created additional administrative costs for those being audited (see **Appendix III**), Moreover, Horn noted several agencies that are doing an excellent job in managing their payables, resulting in minimal audit findings and recovery opportunities. The Medicaid review exceeded estimated recoveries, but the Comptroller recommends allowing HHSC to administer the Medicaid RAC, thus eliminating Medicaid from the statewide program and reducing the potential for duplicative audits.

The Comptroller believes the accounts payable review did not generate enough recoveries to justify continuing the program with an independent contractor. The review, however, has been beneficial to the Comptroller's own expenditure audit program, in that it allowed the Comptroller's expenditure audit staff to work closely with the contractor and learn new audit techniques.

Consequently, we recommend repealing Chapter 2115 of the Government Code, which requires the Comptroller to contract for recovery audit services. We recommend combining this program with our own expenditure audit program. This would allow the state to retain all recovered funds and avoid contingency fees.

Program Overview

Historical Information about Recovery Audits in Texas

In January 2005, LBB issued a recommendation in its Staff Performance Report entitled "Recover Certain State Agency Overpayments to Vendors." LBB recommended that the Comptroller contract with a third-party firm to implement a recovery audit program for Texas. LBB also 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 money, from which it would pay the consultant.

According to the LBB report, the state loses about $9 million in all funds annually on erroneous payments. This calculation was based on typical error rates found in state government agencies. According to LBB, private-sector recovery audit rates represent about 0.1 percent of a business' expenditures in an audit, but public audits typically recover between 0.03 and 0.05 percent. LBB also reported that the typical recovery audit firm receives from 20 to 40 percent of recovered funds as payment for its 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. Milestones throughout the procurement process include:

June 2005	The law takes effect and the Comptroller establishes a recovery audit implementation team.
July 2005	The Comptroller's recovery audit implementation team completes research of common recovery audit practices in the U.S.; a summary of the team's research is provided in **Appendix VI**.
October 2005	The procurement process began when the Comptroller issues RFP172-M, *Overpayment Recovery Audit Services for the Comptroller of Public Accounts on Behalf of Participating State Agencies*.
December 2005	Comptroller staff interviews six respondents.
March 2006	The Comptroller enters into a contract with Horn & Associates, Inc. of Salt Lake City, Utah for statewide recovery audit services.
April 2006	The Comptroller initiates recovery audits at six state agencies.
May 2006	The Comptroller's administrative rule 34 Tex. Admin. Code §5.58 (2006), outlining proportional exception criteria, takes effect.
June 2006	Comptroller initiates recovery audits at 28 qualified state agencies and institutions of higher education.
December 2006	Five HHS audits are put on hold due to scope objections by HHS.
January 2007	Eight agency audits are cancelled following a cost-benefit-analysis (see **Appendix II**).
January through March 2007	Twenty-one agency audits are completed.
May 2008	The five HHS audits resume. Vendor Drug Program analysis begins.
October 2008	Medicaid review begins.
June 2010	Contract expires. Medicaid review is complete. Collections continue through October 2010.

Implementation

Issues Encountered During Implementation

The Comptroller noted the following issues during 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 either have concurrently contracted for their own recovery audits or have recently completed a recovery audit. Of the eight institutions with their own contracts that were qualified for our program, we initiated recovery audits at six. Horn & Associates used risk analysis to determine that proceeding with audits at the other institutions would not be beneficial to the state (see **Appendix V**).

Multiple Requirements for Utility Audits

Tex. Government Code §§2112.001-2112.005 requires state agencies and institutions of higher education to conduct or contract for an audit of their utility bills if they determine the audit would be cost-effective. These same utility payments undergo a similar review under the recovery audit statute.

The state's Council on Competitive Government 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 audits HHSC's medical service programs and coordinates investigative efforts to recover Medicaid overpayments, particularly those due to fraud. Efforts include audits of third-party liabilities, service providers and tests of eligibility.

Section 6411 of the PPACA now requires states to establish a RAC program specifically for Medicaid. Under this provision, states must contract with one or more recovery audit contractors to identify and recover overpayments to Medicaid service providers by April 1, 2011. The contractors are to receive a contingency fee from the amounts recovered. The requirements of the RAC audit are outlined in a proposed rule published by the Centers for Medicare and Medicaid Services (CMS) on Nov. 5, 2010. Its requirements are similar to those used in the statewide recovery audit of Medicaid. The Comptroller's office and HHSC held discussions to determine how to proceed with the reviews. Both the Comptroller and HHSC agreed that the latter should oversee the Medicaid RAC contract due to its special knowledge and skills concerning medical payments.

Restricted Sources of Funding

Chapter 2115 requires state agencies to pay the Comptroller's consultant from recovered funds. Some of these funds, however, are bound by restraints that do not permit the payment of consultant's fees from them. Bond covenant-protected funds and certain trust funds are examples of such funds 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 overpayment recoveries. 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

The Section 2115.001 definition of overpayments eligible for recovery audit includes an agency's erroneous payments of state sales taxes. It is not cost-beneficial for the state to recoup such overpayments because it involves 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 of the 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 process based on the portion of its expenditures made with vendors. During implementation, however, it became clear that the ratio of vendor payments to total expenditures is not a relevant factor in assessing potential cost benefit. Even if an agency's vendor payments represent only a small percentage of their total expenditures, they may still represent a large recovery opportunity. For example, one agency's vendor payments are only 2 percent of their total expenditures, but these vendor payments totaled approximately $717 million. When applying a factor of .04 percent to this amount, the estimated recovery rate comes out to about $287,000.

Frequency of Audits

The statute does not clearly specify the frequency of recovery auditing at a state agency under the program. The Comptroller's office is not aware of any research showing whether repeated recovery audits are beneficial.

The accounts payable audit generated far less in recoveries than originally estimated by LBB, and in some cases entailed administrative costs for those being audited. In cases where errors were made, the agencies involved implemented processes and procedures to correct them. Furthermore, Horn noted that in general agencies are doing an excellent job of managing their payables, resulting in minimal audit findings and recovery opportunities. As a result, Horn recommends a statewide accounts payable audit every three years. Our office, however, has integrated accounts payable recovery audit techniques used by the consultant into our expenditure audit program, and believes we could perform the recovery audit process instead of contracting for it.

The Medicaid recovery audit generated far more recoveries than originally anticipated, even with the limited scope. Horn's recommendation is to have an ongoing audit of Medicaid, which PPACA subsequently required.

Agency Audits

The Comptroller used research and reports provided by LBB to determine the audit population for the recovery audit program. To create additional recovery opportunities, the Comptroller included certain expenditure types in its qualifying calculation that 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.

The Comptroller's office also aimed to protect agencies from situations in which the cost of participating in the audit would outweigh the anticipated gains. 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 expenditures subject to audit were less than $62.5 million (with anticipated gains of less than $25,000), to prevent losses 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 the Texas Workforce Commission's local work force development boards).

The Recovery Audit Program

The audits began with entrance conferences at each agency being audited. The Comptroller's recovery audit team participated in the conferences so that the team could learn how the audits are conducted and which controls are assessed.

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

The entire audit, including collections that occur after fieldwork is completed, was limited to a period of 18 months. Because of this limit, the Comptroller required the consultant to provide final management review reports not later than one month after the fieldwork phase ended at each agency.

Integration with Comptroller Post-Payment Audits

The recovery audit implementation team is part of the Comptroller's expenditure audit team. The team regularly uses data mining techniques to target compliance issues, and therefore benefits by concurrently participating in recovery audit activities. The Comptroller is already using what was learned from the recovery audits. For example, the expenditure audit team has incorporated the statement analysis technique used by Horn during its reviews into our own audit program. (Statement analysis is a review method used by recovery auditors to determine if vendors have unused credits of which customers might not be aware.)

In addition, our office is upgrading existing reports meant to find duplicated payments, and creating new reports to find pricing and discount errors. We continue to search for ways to improve the expenditure audit program through the use of new data analysis techniques.

All Agencies Audited Concurrently

The Comptroller began the statewide program at six agencies — the 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 it would be most beneficial to initiate all agency audits concurrently, so that the consultant could expedite recoveries by working on all agencies' duplicate payments review. Based on the results of that review, the consultant suggested the order of the remaining work, which involved detailed contract reviews and documenting the results of any additional data analysis performed. In June 2006, the Comptroller agreed to initiate the 24 remaining agencies' audits. Two audits (at the University of Texas Health Science Center at San Antonio and the University of Texas M.D. Anderson Cancer Center) were not initiated because these bodies had or were in the process of undergoing their own contracted recovery audits.

Initial objections by HHSC regarding the inclusion of medical service payments in the recovery audit delayed the start of the five HHS agency reviews. After discussions held in early 2008, the HHS audits began in May 2008.

Due to the number of programs HHSC administers and their complexity and structure, Horn believed that auditing HHSC by program would be the most efficient and effective review method. After performing an initial assessment of the Vendor Drug Program, Horn determined that the audit would focus on Medicaid payments. A separate program was developed to review Medicaid claims paid to providers for potential overpayments.

Recovery Audit Process

Accounts Payable

Entrance conferences were held at 34 of the 36 qualifying agencies during a four-month period. As of December 1, 2010, audit fieldwork including collections was completed at all 34 agencies. During fieldwork, Horn reviewed expenditures at each agency for any possible erroneous payments. The audit process included:

- electronic data verification with hard copy records to validate accuracy;
- 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;
- invoice review against payment amount, invoice detail and purchase order information;
- purchase orders against invoices, to ensure that variances were correct (e.g., invoice paid for items received versus items ordered); and
- large contracts and a sampled review of smaller contracts.

Horn also performed initial analyses at agencies determined to be 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 that minimal cost benefits would arise from 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, these audits were canceled in favor of a small electronic review.

Medicaid

In October 2008, the contractor developed a program to review Medicaid claims for potential overpayments, subcontracting with PRGX to perform this portion of the recovery audit.

The audits began with the establishment of a Governance Council to oversee all parts of the recovery audit process. The Governance Council initially met every other week during the early stages of the audit and less frequently once the program moved from startup into a more routine operational phase. The goal of the audit was to prove that overpayments could be recovered with minimal disruption to the Medicaid program and the provider community.

The audit scope was limited to inpatient hospital claims submitted for payment from 2005 through 2008. Public providers were exempt from the audit, based on the enabling legislation and the Comptroller's administrative rule. Provider abrasion limits were introduced to minimize administrative and financial burden on the service provider. The amount of medical records that could be requested from a single provider was equivalent to 8 percent of the provider's total monthly Medicaid claim submissions. These limits are consistent with national Medicare auditing limits proposed by CMS. Once potential claims were chosen for audit, they were reviewed by the state and any claim or provider under investigation was eliminated.

If a claim was identified as a potential overpayment, the provider was notified and asked for medical documentation supporting the claim within 60 days. Once the supporting documentation was received, the claim was reviewed and a determination made based on HHSC policies, rules and supporting medical documentation. When the claim review was complete, the provider was notified of the determination and how the overpayment would be adjusted.

Recoveries to Date

Accounts Payable

In September 2006, the Comptroller's Treasury Operations Division received the first recovered funds. The state's first payment to the consultant was made in October 2006, and as of December 1, 2010, $1.08 million had been recovered and deposited in the state treasury.

Recoveries were divided into eight major categories, with the majority falling in the first three:

- hotel tax
- duplicate payments
- overpayments
- statement review
- wrong vendor paid
- cash discount
- interest paid
- 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 respectively (see Appendix IV).

Medicaid

A total of 8,580 claims were selected for review, across eight mailing waves from April 2009 through April 2010. Once a final determination of overpayment was made, an accounts receivable setup report was submitted to HHSC for adjustment. This report was used to track the amounts recovered so the Comptroller and HHSC could determine the correct fee payments to Horn. As of December 1, 2010, $12.55 million has been recovered and deposited in the state treasury. Of the 8,580 claims selected for review, overpayments were detected in 34 percent of them.

Final Reports Due

Final reports for the initial six agency audits were issued and sent to the Governor's Office, Legislative Budget Board and State Auditor's Office. Twenty-three agencies' reviews yielded minimal findings, so the Comptroller allowed Horn to issue one consolidated report for them.

The report for the Medicaid audit was completed in July 2010. If you would like to receive a printed copy of the report, please send an e-mail to cpa.fiscal.management@cpa.state.tx.us.

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**

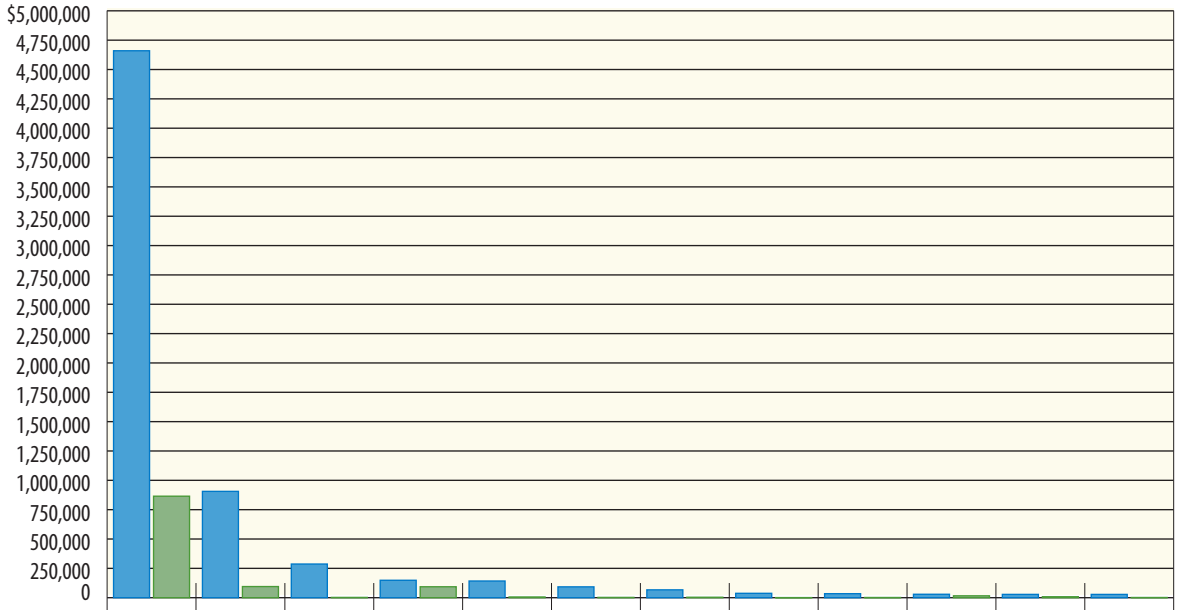
Appendix II: Summary of Consultant's Status Report

Legend

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

Agency Number	Agency	Vendor Payments	Audit Status	Transactions Analyzed (Millions)	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	Audit Complete	$94	$11,499	$1,056		100%	100%	12-May-06	Mar-07	Nov-07
313	Department of Information Resources	$193,573,550.40	Audit Complete	$201	$0	$0		100%	100%	28-Jul-06	Nov-07	Dec-07
320	Texas Workforce Commission	$1,330,786,716.86	Audit Complete	$1,851	$5,026	$0		100%	100%	20-Jul-06	Oct-07	Dec-07
332	Texas Department of Housing and Community Affairs	$231,540,115.19	Canceled due to insufficient cost benefit	$321	$952	$274		100%	100%	13-Jul-06	Aug-07	Dec-07
362	Texas Lottery Commission	$1,267,436,222.24	Audit Complete	$2,806	$0	$0		100%	100%	17-Aug-06	Dec-07	Dec-07
405	Texas Department of Public Safety	$355,853,994.94	Audit Complete	$540	$3,688	$638		100%	100%	21-Aug-06	Jul-07	Dec-07
454	Texas Department of Insurance (453)	$554,342,577.09	Audit Complete	$80	$209	$0		100%	100%	31-Jul-06	Jun-07	Dec-07
455	Railroad Commission of Texas	$50,547,585.06	Audit Complete		$0	$0		100%	100%	1-Aug-06	Dec-07	Dec-07
473	Public Utility Commission of Texas	$161,178,253.66	Audit Complete	$206	$0	$0		100%	100%	2-Aug-06	Dec-07	Dec-07
479	State Office of Risk Management	$69,510,625.30	Audit Complete	$319	$0	$0		100%	100%	7-Aug-06	Sep-07	Dec-07
506	UT MD Anderson Cancer Center	$301,805,182.10								No meeting held		
529	Health and Human Services Commission	$22,044,290,611.50	Audit Complete		12,790	12,552		100%	100%	6-Sep-06	Jan-09	June-10
530	Department of Family and Protective Services	$1,246,067,447.79	Audit Complete	$1,246				100%	100%	12-May-06	Jan-09	June-10
537	Department State Health Services	$4,211,321,987.89	Audit Complete					100%	100%	25-Sep-06	Jan-09	June-10
538	Department of Assistive & Rehabilitative Services (318, 330, 335, 532)	$659,378,862.67	Audit Complete					100%	100%	12-Sep-06	Jan-09	June-10
539	Department of Aging and Disability Services (324, 340)	$8,530,174,847.75	Audit Complete					100%	100%	21-Sep-06	Jan-09	June-10
582	Texas Commission on Environmental Quality	$371,191,650.44	Audit Complete	$1,010	$107,571	$93,391		100%	100%	07-Aug-06	Oct-07	Dec-07
601	Department of Transportation (342)	$11,649,493,268.33	Audit Complete	$12,111	$455,099	$175,768		100%	100%	10-May-06	May-07	Nov-07
694	Texas Youth Commission	$167,750,525.23	Audit Complete	$215	$400	$400		100%	100%	07-Aug-06	Aug-07	Dec-07
696	Texas Department of Criminal Justice	$2,265,205,430.64	Audit Complete	$3,538	$112,180	$93,759		100%	100%	17-May-06	May-07	Nov-07
701	Texas Education Agency (705)	$717,192,947.68	Audit Complete	$1,224	$267	$267		100%	100%	10-Aug-06	Aug-07	Dec-07
709	Texas A&M University System Health Science Center	$38,429,415.19	Canceled due to insufficient cost benefit	$0	$0	$0				22-Feb-07		
710	Texas A&M University System	$78,406,676.29	Canceled due to insufficient cost benefit	$0	$0	$0				22-Feb-07		
711	Texas A&M University (577)	$78,752,539.54	Canceled due to insufficient cost benefit	$0	$0	$0				22-Feb-07		
712	Texas Engineering Experiment Station	$69,167,627.47	Canceled due to insufficient cost benefit	$0	$0	$0				22-Feb-07		
717	Texas Southern University	$87,346,610.99	Audit Complete	$120	$9,204	$1,997		100%	100%	16-May-06	Mar-07	Nov-07
719	Texas State Technical College System	$77,444,639.42	Audit Complete	$61	$0	$0				24-Jul-06	Sep-07	Dec-07
720	University of Texas System	$70,358,492.78	Audit Complete	$894	$53,752	$1,920		100%	100%	17-Jul-06	Jun-07	Dec-07
721	University of Texas at Austin	$70,932,723.29	Audit Complete	$139	$215,298	$8,301		100%	100%	17-Jul-06	Jun-07	Dec-07
724	University of Texas at El Paso	$57,833,899.01	Canceled due to insufficient cost benefit		$0	$0				17-Jul-06		
730	University of Houston	$73,429,783.13	Audit Complete	$813	$161,676	$12,911		100%	100%	21-May-06	Mar-07	Nov-07
735	Midwestern State University	$27,775,558.45	Canceled due to insufficient cost benefit		$0	$0				18-Aug-06		
745	UT Health Science Center at San Antonio	$122,159,249.79								No meeting held		
755	Stephen F. Austin State University	$80,533,972.88	Canceled due to insufficient cost benefit	$153	$0	$0				21-Aug-06		
785	UT Health Science Center at Tyler	$57,576,659.39	Canceled due to insufficient cost benefit	$540	$0	$0				23-Aug-06		
802	Texas Parks and Wildlife Department	$187,911,342.29	Audit Complete	$213	$4,182	$0		100%	100%	04-Aug-06	Jun-07	Dec-07

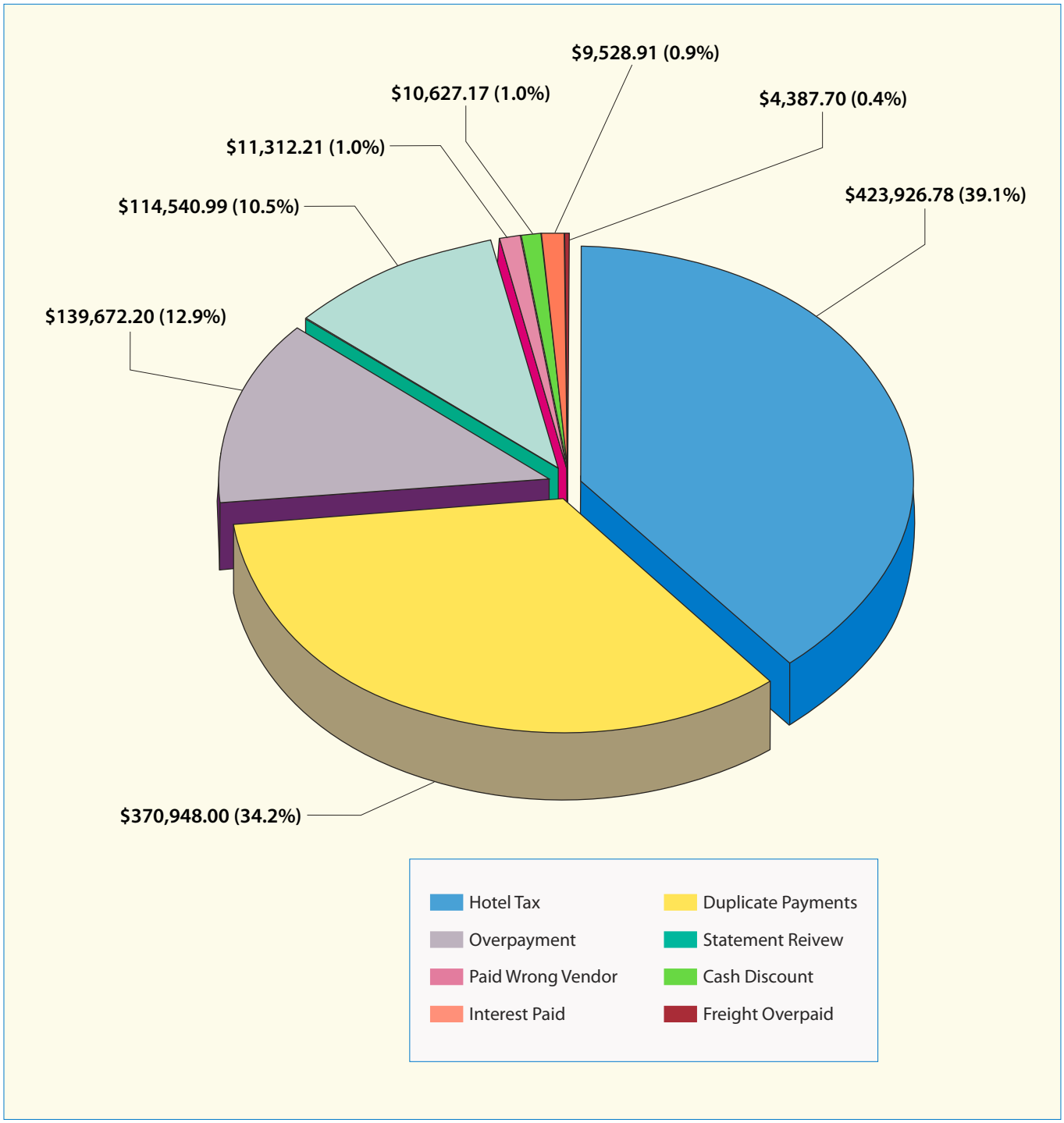
Appendix III: Recovered Funds – Projected vs. Actual



	TxDOT	TDCJ	TEA	TCEQ	DPS	TDHCA	TYC	TBPC	TSU	**UofH	**UT	**UTS
Projected Recoveries	$4,659,797	$906,082	$286,877	$148,477	$142,342	$92,616	$67,100	$37,433	$34,300	$29,372	$28,373	$28,143
Actual Recoveries	$864,978	$95,423	$267	$93,391	$638	$274	$400	$1,055	$1,997	$16,300	$8,301	$1,920

**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

[1]Agency on current audit list

Appendix VI: Research on Governmental Recovery Audits

All states evaluated for our research had the same objectives as Texas: the contractor performing the recovery audit should detect and recover overpayments to vendors and recommend improved state agency accounting operations. The following summarizes 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. Forty 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 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 million per person/$3 million 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 million combined single limit per occurrence for bodily injury liability and property damage liability. Automobile liability insurance not less than $1 million combined single limit per accident for bodily injury and property damage.	Commercial general liability in the amount of $1 million per occurrence. Automobile liability in the amount of $1 million 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, although their methods and scales varied. Below is a summary of each state's 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. RFP 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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