

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 10, 2005

TO: Honorable Steve Ogden, Chair, Senate Committee on Finance

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: SB1569 by Williams (Relating to audits of state agency expenditures to recover overpayments and lost discounts.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1569, As Introduced: a positive impact of \$9,600,000 through the biennium ending August 31, 2007.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	\$0
2007	\$9,600,000
2008	\$3,200,000
2009	\$3,200,000
2010	\$3,200,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>GENERAL REVENUE FUND 1</i>	Probable Savings/(Cost) from <i>GR DEDICATED ACCOUNTS 994</i>	Probable Savings/(Cost) from <i>OTHER FUNDS 997</i>
2006	\$0	\$0	\$0
2007	\$9,600,000	\$900,000	\$3,000,000
2008	\$3,200,000	\$300,000	\$1,000,000
2009	\$3,200,000	\$300,000	\$1,000,000
2010	\$3,200,000	\$300,000	\$1,000,000

Fiscal Analysis

The bill would implement a recommendation in the Legislative Budget Board's *Staff Performance Report, State Government Efficiency and Operations Submitted to the 79th Legislature*. Recommendation 2 in the "Recover Certain State Agency Overpayments to Vendors" report proposes amending statute to require state entities with more than \$100 million in biennial expenditures from appropriated funds to participate in recovery audits unless exempted by the Comptroller of Public Accounts.

The bill would direct the Comptroller of Public Accounts (CPA) to contract with one or more consultants to conduct recovery audits of payments made by state agencies to vendors and to recommend improved state agency accounting operations. The bill would direct the CPA to require recovery audits on expenditures to third parties by agencies with total expenditures exceeding \$100 million in a biennium. The CPA may exempt some agencies by rule.

Section 8.03 of Article IX in the current version of the General Appropriations Bill as passed by the House and Senate directs the Comptroller to deposit 50 percent of recovered General Revenue Funds, General Revenue-Dedicated Funds, and Other Funds in the state treasury. Article IX appropriates the other half to the state entity for the original purpose of the appropriation, and directs the state agency to pay the recovery audit firm's contracted percentage from this appropriation. Article IX returns all recovered Federal Funds to the state agency, which would pay the contracted percentage of the recovery audit firm. The state agency would then expend the remainder or return it to the federal government, as provided in the rules of each federal program.

The bill would require the Comptroller to report a summary of all reports received under the new chapter from consultants under contract during the preceeding biennium to the Legislature no later than January 1 of each odd-numbered year.

The bill would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2005.

Methodology

It is assumed that the recovery audit firm would produce a 0.04 percent recovery rate on all expenditures. It is assumed that recoveries from fiscal years 2003 to 2005 would be collected in fiscal year 2007, but subsequent years would recover expenditures from a single prior fiscal year. As each Federal Funds program has its own rules regarding recovered expenditures, it is estimated that there would be no savings or revenue gain from Federal Funds.

It is assumed that the time necessary to issue requests for proposals and negotiate contracts indicates that the earliest any recovered revenue would be seen from this program would be in fiscal year 2007. It is assumed that in the first year of the program, the recovery audit firm would review expenditures from the previous three fiscal years, leading to a greater than normal collection amount in fiscal year 2007. The half of recovered funds returned to the state treasury in a single year would be \$3.2 million in General Revenue Funds, \$300,000 in General Revenue-Dedicated Funds, and \$1.0 million in Other Funds. In fiscal year 2007, recovered funds returned to the state treasury would be for three years, thus \$9.6 million in General Revenue Funds, \$900,000 in General Revenue-Dedicated Funds, and \$3.0 million in Other Funds. It is assumed that the CPA could absorb the cost of administering this program within current appropriations.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 308 State Auditor's Office

LBB Staff: JOB, SD, JI, HC