LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 16, 2007

TO: Honorable Rodney Ellis, Chair, Senate Committee on Government Organization

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

IN RE: **SB750** by Deuell (Relating to the creation of the Office of State Inspector General.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB750, Committee Report 1st House, Substituted: a negative impact of ($392,590) through the biennium ending August 31, 2009.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

Section one of the bill would create a new state agency, the Office of State Inspector General (OSIG), which would be responsible for the detection, investigation, and prevention of fraud, waste, and abuse in the state implementation and administration of all state or federally-funded programs and enforcement of state law relating to those programs. The State Inspector General may appoint state agency inspectors general in state agencies that implement or administer state or federal programs. The OSIG would be authorized to employ and commission peace officers.

A state agency inspector general may be co-located with an agency and each state agency for which a state agency inspector general is designated would transfer staff and resources performing the duties of the inspector general within 90 days. All state and federal funding, including funding for overhead, support and lease cost would be transferred and allocated to OSIG. Affected agencies would be required to provide administrative support to the OSIG under the terms of a service level agreement that would be reviewed and executed annually.

The bill would abolish the inspector general that currently resides at the Health and Human Services Commission (HHSC); it also would require HHSC to transfer all assets, funding, employees and related costs to the OSIG no later than January 1, 2008.

The bill would take effect immediately with a two-thirds vote of each house; if not, it would take effect September 1, 2007.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2008	($196,295)
2009	($196,295)
2010	($195,295)
2011	($195,295)
2012	($195,295)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from *GENERAL REVENUE FUND* 1	Change in Number of State Employees from FY 2007
2008	($196,295)	2.5
2009	($196,295)	2.5
2010	($195,295)	2.5
2011	($195,295)	2.5
2012	($195,295)	2.5

Fiscal Analysis

The cost to the state results from an anticipated increase in the number of civil rights and employment cases that the Law Enforcement Division at the Office of Attorney General (OAG) would need to defend on behalf of the OSIG. This is due to the bill's requirement to investigate fraud in any state or federally-funded program, which could result in a significant number of lawsuits against the OSIG, its staff and commissioned officers, as well as other state agencies and employees.

The bill's provisions related to state agency inspectors general would require transfers of personnel and assets from agencies to the OSIG. No significant fiscal impact is assumed for these transfers. To implement these transfers, the General Appropriations Act would need to provide for them.

HHSC states that the bill would require the agency to amend its federal cost allocation plan and for the OSIG to submit a new plan for the entity. HHSC assumes that OSIG’s cost allocation would be derived by a rate since it could not be a part of HHSC which has a Public Assistance Cost Allocation Plan. It is unknown if a new cost allocation methodology would be approved by federal agencies by September 1, 2007. Expanding a cost allocation methodology beyond HHS agencies to incorporate other state entities with access to other federal funding sources would require a more extensive plan. It is unknown if there would be a gain or loss to federal funds under the new cost allocation methodology.

While there is the potential that implementation of the bill could result in increased findings and collections, these have not been quantified at this time. Further, cost avoidances are not currently recognized as savings. And, recoupments are not considered to be an increase in revenue nor a reduction in expenditures--as they are part of already appropriated funds.

Methodology

The OAG estimates it would require 2.5 full-time equivalents per year, at a cost of $196,295 per year, which includes $129,506 for salaries, $30,152 for operating, travel and capital equipment costs, and $36,637 for benefits.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 302 Office of the Attorney General, 308 State Auditor's Office, 529 Health and Human Services Commission, 301 Office of the Governor, 320 Texas Workforce Commission, 454 Department of Insurance, 530 Family and Protective Services, Department of, 537 State Health Services, Department of, 538 Assistive and Rehabilitative Services, Department of, 539 Aging and Disability Services, Department of, 601 Department of Transportation

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