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FISCAL IMPACT REPORT

ORIGINAL DATE 3/3/15

SPONSOR Hall LAST UPDATED 3/5/15 HB 524

SHORT TITLE Health Services Triennial Audits SB _____

ANALYST Malone

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		Unknown Additional Cost	\$0.0	Unknown Additional Cost	Recurring Every Third year	State General Fund/Other State Funds/Federal Matching Funds

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Office of the State Auditor (OSA)
 Human Services Department (HSD)
 Department of Health (DOH)

SUMMARY

Synopsis of Bill

House Bill 524 amends the Audit Act to require the State Auditor to audit the state's expenditures for health care coverage, health care services, and education every three years, with the first audit taking place by December 31, 2016. The bill requires an agency or local public body entering into a contract for health care coverage, health care services, or education to include audit rights in the contract and allow the State Auditor to inspect all materials subject to the audit rights. The State Auditor is given the right to require a state agency or local public body to exercise its audit rights pursuant to this section.

Additionally, the bill provides that an agency or local public body can terminate a contract immediately without further liability in the event of a breach of the audit rights provision or any irregularity in the results of the audit.

FISCAL IMPLICATIONS

OSA states that it can complete the audits required by this bill using existing resources.

Agencies and local public bodies implicated by this bill—through contracts for health care coverage, health care services, and education—would be triennially responsible for costs associated with the audit. For instance, HSD anticipates being responsible for the audit of Medicaid managed care organizations.

Audit fees are currently built into agency budgets based on estimates produced by OSA. These fees would likely need to be adjusted to account for the additional audit requirements, or agencies will have to absorb additional costs. For example, a very rough estimate from OSA for the cost to HSD for their component of the triennial audits is \$20 thousand to \$40 thousand (assuming the work is done by OSA at a rate of \$100 per hour).

There is no appropriation contained in this bill.

SIGNIFICANT ISSUES

1. OSA notes that, according to the National Association of State Budget Officers, 39 percent of all expenditures in the 2012 budget for the State of New Mexico went toward education, and 24.7 percent went to Medicaid, and an additional 27.9 percent of expenditures went to “Other,” which includes other healthcare expenditures including the Children’s Health Insurance Program (CHIP), care for the mentally ill and developmentally disabled and public health programs.
2. OSA also observes that the triennial audits and related contract rights provisions in HB 524 give the state the ability to look past the lump sum expenditures of state agencies shown in annual audits. The audits will be able to determine to what extent State expenditures are going to goods and services as opposed to overhead, and whether the books and records of our service providers are accurate.
3. HSD notes that contracts with Medicaid managed care organizations already contain language regarding financial reporting and monitoring, including monthly bank statements, quarterly reporting of revenues and expenditures by program and by category, quarterly and annual statements as filed with the Office of the Superintendent of Insurance, and their annual independently audited financial statements.

ADMINISTRATIVE IMPLICATIONS

OSA will have primary responsibility for the requirements of this bill. However, individual agencies and local public bodies will be responsible for incorporating audit rights into their contracts.

DOH notes the possibility that additional resources, such as software, may be helpful in providing sufficient data on health care coverage and health care services expenditures for audit.

OTHER SUBSTANTIVE ISSUES

Audit rights and inspection provisions are standard market terms in arm’s length transactions between private entities. Any business that wishes to benefit from New Mexico tax dollars will be affirmatively agreeing to the minimal intrusion of opening its books to its customer, in a manner that is routine in the private sector. This should minimize the possibility of

administrative delay or litigation that might result from a more intrusive approach.

AMENDMENTS

On page 7, line 4 insert “personnel of the state auditor’s office designated by the state auditor or independent auditors approved by the state auditor” after “state auditor” to reflect the language in subsection A of the Audit Act.

ALTERNATIVES

A possible more cost-effective and frequent alternative to the triennial audits proposed in this bill would be to have agencies and local public bodies include in their annual audits a breakout of all contractual expenditures for health care coverage, health care services, and education and maintain the bill’s requirement for incorporating language to allow the agency or OSA to audit these expenditures.

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