



MEMORANDUM

Date: June 24, 2011

To: Members of the Legislative Audit Committee

From: Dianne E. Ray, CPA, Acting State Auditor 

Re: Office of the State Auditor's Validation of Realized Cost Savings Submitted by the Department of Health Care Policy and Financing under the State Employees' Ideas That Improve State Government Operations Incentive Program

Background

House Bill 10-1264 established an employee incentive program for the purpose of encouraging “the involvement of state employees in the development of innovative ideas that will increase the productivity and service level of state government while decreasing the costs of state government.” Under statute (Section 24-50-903 et seq., C.R.S.), the Department of Personnel & Administration (DPA) was required to create by October 2010 an application form on its website allowing employees to suggest state agency improvements that may result in cost savings at the agency where the employees work. Statute also required that DPA establish standard evaluation criteria—substantially similar to criteria used by a comparable incentive program developed by the U.S. Air Force—to be used by executive directors, or designees, for reviewing each idea’s eligibility for the incentive program and also allowed each state agency to establish additional criteria.

Under the program, employees suggesting ideas that result in realized cost savings are eligible to receive an award equal to 5 percent of the cash savings, up to \$5,000. In addition, the state agency directly affected by the idea receives 25 percent of the cost savings realized, up to \$25,000. Multiple employees can co-submit ideas, but they split the 5 percent award if the idea’s cost savings are realized and then verified by the State Auditor. Under statute, employees at DPA, the Office of the State Auditor (OSA), the Joint Budget Committee, and the Office of State Planning and Budgeting (OSPB) are not eligible for awards under this program. Statute also excludes elected officials, members of the General Assembly, and executive management staff (e.g., executive directors, college presidents, division directors, or deputies of such staff) from awards under this program. DPA guidance indicates that state agency staff whose primary job



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duties include responsibility for identifying efficiencies and cost reductions are also excluded. Finally, House Bill 11-1301, which has been signed by the Governor, makes higher education employees ineligible for this program but allows higher education institutions to establish their own similar incentive programs for their employees.

What is the role of state employees with regard to this program?

An employee with a cost savings idea must complete the application available from DPA's website and submit the application to the executive director of the employee's agency. The application must describe the agency's current method of operations; the employee's proposed change in operations (i.e., the cost savings idea), including implementation date; and the expected benefits of the operational change, including an estimate of the anticipated cost savings.

What is the responsibility of the agency's executive director with regard to this program?

Under statute [Section 24-50-903(1)(c)(III)(C), C.R.S.], the executive director of the agency, or his or her designee, receiving the employee's application is ultimately responsible for approving or denying the employee's idea for implementation. The executive director may "automatically" deny the application if the idea is duplicative of applications received in the prior 12 months or of recommendations contained in audit reports issued by the OSA or any privately contracted auditor, Joint Budget Committee staff documents, or any other published evaluation of Colorado state government. If the executive director denies the application, he or she must provide documentation of the application to the OSPB director.

For ideas not automatically denied, the executive director must calculate the projected savings associated with the idea. If the executive director approves the idea, then he or she must also request any necessary legislation to implement the idea from the appropriate legislative committee of reference. Ideas not requiring legislative change must be implemented as soon as possible, but no later than July 1 of the fiscal year following approval of the employee's application. Once the agency implements the idea, the executive director calculates the realized savings after 12 months of full implementation and submits documentation to the State Auditor for review and verification.

What is the responsibility of the State Auditor with regard to this program?

Statute [Section 24-50-903(4)(b), C.R.S.] requires the State Auditor to review and verify the cost savings realized by ideas suggested by state employees to improve state government. Once the review is complete, the State Auditor is required to submit a report with findings, recommendations, and conclusions to the Legislative Audit Committee, which shall hold a public hearing for the purposes of reviewing the report.

Review and Verification of Cost Savings

<i>Department Impacted:</i>	Department of Health Care Policy and Financing
<i>Programs Impacted:</i>	Medicaid, Child Health Plan Plus
<i>Realized Cost Savings Reported by Department:</i>	\$13.7 million to General Fund
<i>Cost Savings Validated by State Auditor:</i>	Yes

What was the cost savings idea approved by the agency's Executive Director?

As required by statute [Section 24-50-903(4)(b), C.R.S.], in March 2011 the Department of Health Care Policy and Financing (HCPF) forwarded to the OSA an idea to realize cost savings through the federal Children's Health Insurance Program Reauthorization Act of 2009. Specifically, staff proposed collecting data that would allow HCPF to qualify for a one-time federal bonus payment of \$13.7 million for Federal Fiscal Year 2010 that could be used to offset expenditures normally charged to the State's General Fund. The Children's Health Insurance Program Reauthorization Act of 2009 authorizes federal bonus payments from Federal Fiscal Years 2009 through 2013 for states that meet five of eight criteria related to enrolling and retaining clients in their children's health care plans or Medicaid. The eight criteria include presumptive eligibility for children and the same application process for a state's Medicaid and children's health plan program. According to HCPF staff, Colorado met only four of the eight criteria when federal bonuses were determined and awarded during Federal Fiscal Year 2009. However, staff submitting this idea believed that Colorado could meet a fifth criterion related to health care premium assistance programs in time to qualify for the Federal Fiscal Year 2010 bonus determinations. To meet this criterion, HCPF staff proposed collecting additional data from client files to prove that it had a qualifying premium assistance program.

What were the savings realized by the agency and submitted to the State Auditor for verification as a result of the employee's cost savings idea application?

HCPF reported \$13.7 million in one-time savings to the State's General Fund for Fiscal Year 2011.

Were the savings reported by the agency verified by the State Auditor?

Yes, we were able to verify the projected savings for the idea submitted by HCPF staff. Our review and verification of HCPF's realized savings focused on whether HCPF received the federal bonus payment of \$13.7 million and used it to offset expenditures normally charged to state general funds. HCPF staff provided documentation from the U.S. Department of Health and Human Services demonstrating that HCPF was awarded the \$13.7 million bonus payment for

Federal Fiscal Year 2010. We then verified through the Colorado Financial Reporting System (COFRS) that HCPF received the \$13.7 million bonus payment in March 2011. We also confirmed through COFRS that HCPF reclassified \$13.7 million in expenditures from a general fund cost center to a 100 percent federal fund cost center. Both of these cost centers were associated with HCPF's general fund Medicare Modernization Act of 2003 State Contribution Payment line item.

HCPF management indicated that staff will continue to collect the data needed from its client files to allow the State to qualify for the annual Children's Health Insurance Program Reauthorization Act of 2009 bonuses in the future.

We have no recommendations with regard to this application for state government cost savings.

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