



JBC Staff Comeback

Health Care Policy and Financing

JBC Staff: Eric Kurtz, (303-866-4952)

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OSPB comeback #49 HCPF Fraud, Waste, & Abuse

The Governor is asking for one-time funding in FY 2026-27 to address known improper payments. The Department believes this will result in additional recoveries that offset the General Fund but only the costs were reflected in the OSPB summary table and not the savings. This memo attempts to clarify both the cost and the savings associated with the comeback request.

There are actually three options presented in the comeback:

1. **Claim by Claim Audit** – This audit would review each individual claim. The Department estimates the requested funding would allow them to review 17 percent of the claims.
2. **Extrapolation Audit** – This approach would require legislation allowing the Department to use a statistically significant sample of claims to extrapolate the total improper payments. The Department says this method often results in settlements, because both parties want to avoid the administrative burden of going claim by claim to verify the findings. As a result, the Department's estimate discounts the percentage of improper claims recovered. However, the total projected recoveries are significantly higher because the Department can extrapolate to every claim, rather than looking at only 17 percent under the claim by claim method. The proposed legislation would allow the Department to use extrapolation only for pediatric behavioral therapy, non-emergency medical transportation, and situations when a federal audit uses extrapolation to recovery money from Colorado. The proposed legislation would continue to prohibit the Recovery Audit Contractor (RAC) from using extrapolation.
3. **Both** – This approach would combine claim by claim audits and extrapolation audits. The total recoveries are higher, but the cost for claims reviews is based on the claim by claim audit rather than the extrapolation audit, so the return on investment is lower. This is the Department's preferred approach and provides them the most flexibility. The Department says it would evaluate how it uses the funding for the claims reviews through the year and may present a supplemental to reallocate a portion of the money for extrapolation audits of non-emergency medical transportation in order to increase the projected recoveries.

All of the estimated costs and savings below are based on reviewing two years of claims (calendar year 2022 and 2023) for pediatric behavioral therapy. However, two of the options would potentially allow the Department to

increase recoveries from other improper payments, including non-emergency medical transportation and other places where a federal audit used extrapolation to estimate improper payments.

Recoveries are exempt from TABOR. The revenues from recoveries get used to offset the need for General Fund and federal funds for Medical Services Premiums so that the total expenditures don't change but the sources of funding change.

Claim by Claim Audit

| Item | Total Funds | General Fund | Cash Funds | Federal Funds |
|---------------------|--------------|--------------|--------------|---------------|
| Claims reviews | \$13,073,850 | \$6,536,925 | \$0 | \$6,536,925 |
| FY 26-27 Recoveries | 0 | -5,551,000 | 11,102,000 | -5,551,000 |
| Subtotal - FY 26-27 | \$13,073,850 | \$985,925 | \$11,102,000 | \$985,925 |
| FY 27-28 Recoveries | 0 | -6,441,950 | 12,883,900 | -6,441,950 |
| FY 28-29 Recoveries | 0 | 0 | 0 | 0 |
| Total Recoveries | 0 | -11,992,950 | 23,985,900 | -11,992,950 |
| ROI | | -1.8 : 1 | | |

Extrapolation Audit [legislation]

| Item | Total Funds | General Fund | Cash Funds | Federal Funds |
|---------------------|-------------|--------------|--------------|---------------|
| Claims reviews | \$5,360,280 | \$2,680,140 | \$0 | \$2,680,140 |
| FY 26-27 Recoveries | 0 | -8,267,200 | 16,534,400 | -8,267,200 |
| Subtotal - FY 26-27 | \$5,360,280 | -\$5,587,060 | \$16,534,400 | -\$5,587,060 |
| FY 27-28 Recoveries | 0 | -11,022,920 | 22,045,840 | -11,022,920 |
| FY 28-29 Recoveries | 0 | -2,755,730 | 5,511,460 | -2,755,730 |
| Total Recoveries | 0 | -22,045,850 | 44,091,700 | -22,045,850 |
| ROI | | -8.2 : 1 | | |

Both

| Item | Total Funds | General Fund | Cash Funds | Federal Funds |
|---------------------|--------------|--------------|--------------|---------------|
| Claims reviews | \$13,073,850 | \$6,536,925 | \$0 | \$6,536,925 |
| FY 26-27 Recoveries | 0 | -7,416,875 | 14,278,650 | -6,861,775 |
| Subtotal - FY 26-27 | \$13,073,850 | -\$879,950 | \$14,278,650 | -\$324,850 |
| FY 27-28 Recoveries | 0 | -15,590,970 | 31,181,940 | -15,590,970 |
| FY 28-29 Recoveries | 0 | -2,287,255 | 4,574,510 | -2,287,255 |
| Total Recoveries | 0 | -25,295,100 | 50,035,100 | -24,740,000 |
| ROI | | -3.9 : 1 | | |

The highest return on investment comes from legislation allowing the Department to use extrapolation, but extrapolation is unpopular with many providers and a bill may face opposition. From a policy perspective, rather

than a political lens, extrapolation audits use proven and statistically sound methods. Extrapolation audits are cost effective and have been adopted by the federal government.

The General Assembly could fund the claim by claim audit through the Long Bill. It requires a relatively small net increase of \$1.0 million General Fund in FY 2026-27 but it increases projected recoveries

The JBC staff does not see much benefit to the third option that combines both. If the Department wants to conduct an extrapolation audit of non-emergency medical transportation (NEMT), it can submit a supplemental request next year. There is no need for the General Assembly to pre-fund an extrapolation audit of NEMT before the Department has analyzed the costs or savings.