2 **ESHB 1372** - S COMM AMD

3 By Committee on Ways & Means

4 ADOPTED 4/16/93

- 5 Strike everything after the enacting clause and insert the 6 following:
- 7 "NEW SECTION. Sec. 1. The legislature finds that many of the 8 systems currently in place for assuring accountability in state 9 government programs are not operated comprehensively, do not take advantage of modern management techniques, and do not contribute 10 adequately to the optimum use of scarce resources. Critical variables 11 12 that are not always taken into account include whether stated goals and 13 objectives are being achieved, and whether desired results are being 14 accomplished.
- Agency executives need more accurate information for setting policy, determining whether new or existing programs are effective, and improving internal controls for agency management. These needs must be met at all levels of operation, and must be clearly communicated to the legislature and all interested parties.
- 20 Ensuring accountability in government involves a long-term 21 commitment to policy planning, quality management, and results-oriented 22 evaluation. It is the intent of this act to facilitate program 23 evaluations and performance audits of selected state agencies and 24 programs through the coordinated resources of the executive and 25 legislative branches of state government.
- 26 **Sec. 2.** RCW 43.88.020 and 1991 c 358 s 6 are each amended to read 27 as follows:
- 28 (1) "Budget" means a proposed plan of expenditures for a given 29 period or purpose and the proposed means for financing these 30 expenditures.
- 31 (2) "Budget document" means a formal, written statement offered by 32 the governor to the legislature, as provided in RCW 43.88.030.
- 33 (3) "Director of financial management" means the official appointed 34 by the governor to serve at the governor's pleasure and to whom the 35 governor may delegate necessary authority to carry out the governor's

- 1 duties as provided in this chapter. The director of financial 2 management shall be head of the office of financial management which 3 shall be in the office of the governor.
- 4 (4) "Agency" means and includes every state office, officer, each 5 institution, whether educational, correctional or other, and every 6 department, division, board and commission, except as otherwise 7 provided in this chapter.
- 8 (5) "Public funds", for purposes of this chapter, means all moneys, 9 including cash, checks, bills, notes, drafts, stocks, and bonds, 10 whether held in trust, for operating purposes, or for capital purposes, 11 and collected or disbursed under law, whether or not such funds are 12 otherwise subject to legislative appropriation, including funds 13 maintained outside the state treasury.
- 14 (6) "Regulations" means the policies, standards, and requirements, 15 stated in writing, designed to carry out the purposes of this chapter, 16 as issued by the governor or the governor's designated agent, and which 17 shall have the force and effect of law.
- (7) "Ensuing biennium" means the fiscal biennium beginning on July 19 1st of the same year in which a regular session of the legislature is 20 held during an odd-numbered year pursuant to Article II, section 12 of 21 the Constitution and which biennium next succeeds the current biennium.
- 22 (8) "Dedicated fund" means a fund in the state treasury, or a 23 separate account or fund in the general fund in the state treasury, 24 that by law is dedicated, appropriated or set aside for a limited 25 object or purpose; but "dedicated fund" does not include a revolving 26 fund or a trust fund.
- 27 (9) "Revolving fund" means a fund in the state treasury, 28 established by law, from which is paid the cost of goods or services 29 furnished to or by a state agency, and which is replenished through 30 charges made for such goods or services or through transfers from other 31 accounts or funds.
- (10) "Trust fund" means a fund in the state treasury in which designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise, or bequest that limits the use of the fund to designated objects or purposes.
- 37 (11) "Administrative expenses" means expenditures for: (a) 38 Salaries, wages, and related costs of personnel and (b) operations and

- 1 maintenance including but not limited to costs of supplies, materials,
 2 services, and equipment.
- 3 (12) "Fiscal year" means the year beginning July 1st and ending the 4 following June 30th.
- 5 (13) "Lapse" means the termination of authority to expend an 6 appropriation.
- 7 (14) "Legislative fiscal committees" means the legislative budget 8 committee, the legislative evaluation and accountability program 9 committee, the ways and means committees of the senate and house of 10 representatives, and, where appropriate, the legislative transportation 11 committee.
- 12 (15) "Fiscal period" means the period for which an appropriation is 13 made as specified within the act making the appropriation.
- 14 (16) "Primary budget driver" means the primary determinant of a 15 budget level, other than a price variable, which causes or is 16 associated with the major expenditure of an agency or budget unit 17 within an agency, such as a caseload, enrollment, workload, or 18 population statistic.
- 19 (17) "Stabilization account" means the budget stabilization account 20 created under RCW 43.88.525 as an account in the general fund of the 21 state treasury.
- 22 (18) "State tax revenue limit" means the limitation created by 23 chapter 43.135 RCW.
- (19) "General state revenues" means the revenues defined by Article VIII, section 1(c) of the state Constitution.
- (20) "Annual growth rate in real personal income" means the estimated percentage growth in personal income for the state during the current fiscal year, expressed in constant value dollars, as published by the office of financial management or its successor agency.
- (21) "Estimated revenues" means estimates of revenue in the most 30 recent official economic and revenue forecast prepared under RCW 31 82.33.020, and prepared by the office of financial management for those 32 33 funds, accounts, and sources for which the office of the economic and 34 revenue forecast council does not prepare an official forecast 35 including estimates of revenues to support financial plans under RCW 44.40.070, that are prepared by the office of financial management in 36 37 consultation with the interagency task force.
- 38 (22) "Estimated receipts" means the estimated receipt of cash in 39 the most recent official economic and revenue forecast prepared under

- 1 RCW 82.33.020, and prepared by the office of financial management for 2 those funds, accounts, and sources for which the office of the economic 3 and revenue forecast council does not prepare an official forecast.
- 4 (23) "State budgeting, accounting, and reporting system" means a 5 system that gathers, maintains, and communicates fiscal information. 6 The system links fiscal information beginning with development of 7 agency budget requests through adoption of legislative appropriations 8 to tracking actual receipts and expenditures against approved plans.
- 9 (24) "Allotment of appropriation" means the agency's statement of 10 proposed expenditures, the director of financial management's review of 11 that statement, and the placement of the approved statement into the 12 state budgeting, accounting, and reporting system.
- (25) "Statement of proposed expenditures" means a plan prepared by each agency that breaks each appropriation out into monthly detail representing the best estimate of how the appropriation will be expended.
- (26) "Undesignated fund balance (or deficit)" means unreserved and undesignated current assets or other resources available for expenditure over and above any current liabilities which are expected to be incurred by the close of the fiscal period.
- 21 (27) "Internal audit" means an independent appraisal activity
 22 within an agency for the review of operations as a service to
 23 management, including a systematic examination of accounting and fiscal
 24 controls to assure that human and material resources are guarded
 25 against waste, loss, or misuse; and that reliable data are gathered,
 26 maintained, and fairly disclosed in a written report of the audit
 27 findings.
- (28) "Performance audit" means an audit which determines the 28 following: (a) Whether a government entity is acquiring, protecting, 29 30 and using its resources economically and efficiently; (b) the causes of inefficiencies or uneconomical practices; (c) whether the entity has 31 complied with laws and regulations applicable to the program; (d) the 32 extent to which the desired results or benefits established by the 33 34 legislature are being achieved; and (e) the effectiveness of organizations, programs, activities, or functions. 35
- (29) "Program evaluation" means the use of a variety of policy and fiscal research methods to (a) determine the extent to which a program is achieving its legislative intent in terms of producing the effects expected, and (b) make an objective judgment of the implementation,

- 1 outcomes, and net cost or benefit impact of programs in the context of
- 2 their goals and objectives. It includes the application of systematic
- 3 methods to measure the results, intended or unintended, of program
- 4 activities.
- 5 (30) "Success measures" include, but are not limited to the
- 6 <u>following types of indicators: (a) Indicators of service efforts,</u>
- 7 stated in terms of human and material resource inputs expended on a
- 8 service during a specific period; (b) indicators of service
- 9 accomplishments or outputs, such as the amount of workload
- 10 accomplished; and outcomes, such as numeric indicators of program
- 11 results and service quality; and (c) indicators that relate service
- 12 efforts to service accomplishments, such as indexes of productivity,
- 13 efficiency, or effectiveness.
- 14 **Sec. 3.** RCW 43.88.090 and 1989 c 273 s 26 are each amended to read 15 as follows:
- 16 (1) For purposes of developing budget proposals to the legislature,
- 17 the governor shall have the power, and it shall be the governor's duty,
- 18 to require from proper agency officials such detailed estimates and
- 19 other information in such form and at such times as the governor shall
- 20 direct. The estimates for the legislature and the judiciary shall be
- 21 transmitted to the governor and shall be included in the budget without
- 22 revision. The estimates for state pension contributions shall be based
- 23 on the rates provided in chapter 41.45 RCW. Copies of all such
- 24 estimates shall be transmitted to the standing committees on ways and
- 25 means of the house and senate at the same time as they are filed with
- 26 the governor and the office of financial management.
- 27 (2) ((Estimates from each agency shall include goals and objectives
- 28 for each program administered by the agency. The goals and objectives
- 29 shall, whenever possible, be stated in terms of objective measurable
- 30 results.)) For the purpose of assessing program performance, each
- 31 state agency shall establish results-oriented goals and objectives, and
- 32 develop success measures based on these goals and objectives, for each
- 33 major program in its budget. Each agency shall express the success
- 34 measures in an objective, quantifiable, and measurable form unless
- 35 permitted by the office of financial management to adopt a different
- 36 standard.
- The estimates shall include statements or tables which indicate, by
- 38 agency, the state funds which are required for the receipt of federal

- 1 matching revenues. The estimates shall be revised as necessary to 2 reflect legislative enactments and adopted appropriations and shall be 3 included with the initial biennial allotment submitted under RCW 4 43.88.110.
- (3) In the year of the gubernatorial election, the governor shall 5 invite the governor-elect or the governor-elect's designee to attend 6 7 all hearings provided in RCW 43.88.100; and the governor shall furnish 8 governor-elect or the governor-elect's designee with 9 information as will enable the governor-elect or the governor-elect's 10 designee to gain an understanding of the state's budget requirements. The governor-elect or the governor-elect's designee may ask such 11 questions during the hearings and require such information as the 12 13 governor-elect or the governor-elect's designee deems necessary and may make recommendations in connection with any item of the budget which, 14 15 with the governor-elect's reasons therefor, shall be presented to the 16 legislature in writing with the budget document. Copies of all such 17 estimates and other required information shall also be submitted to the standing committees on ways and means of the house and senate. 18
- 19 **Sec. 4.** RCW 43.88.160 and 1992 c 118 s 8 are each amended to read 20 as follows:

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- This section sets forth the major fiscal duties and responsibilities of officers and agencies of the executive branch. regulations issued by the governor pursuant to this chapter shall provide for a comprehensive, orderly basis for fiscal management and control, including efficient accounting and reporting therefor, for the executive branch of the state government and may include, in addition, such requirements as will generally promote more efficient public management in the state.
- 29 (1) Governor; director of financial management. The governor, 30 through the director of financial management, shall devise and supervise a modern and complete accounting system for each agency to 31 the end that all revenues, expenditures, receipts, disbursements, 32 33 resources, and obligations of the state shall be properly and 34 systematically accounted for. The accounting system shall include the development of accurate, timely records and reports of all financial 35 36 affairs of the state. The system shall also provide for central accounts in the office of financial management at the level of detail 37 38 deemed necessary by the director to perform central financial

- The director of financial management shall adopt and 1 periodically update an accounting procedures manual. Any agency 2 maintaining its own accounting and reporting system shall comply with 3 4 the updated accounting procedures manual and the rules of the director adopted under this chapter. An agency may receive a waiver from 5 complying with this requirement if the waiver is approved by the 6 7 director. Waivers expire at the end of the fiscal biennium for which 8 they are granted. The director shall forward notice of waivers granted 9 to the appropriate legislative fiscal committees. The director of 10 financial management may require such financial, statistical, and other reports as the director deems necessary from all agencies covering any 11 12 period.
- (2) The director of financial management is responsible for 13 quarterly reporting of primary operating budget drivers such as 14 15 applicable workloads, caseload estimates, and appropriate unit cost 16 These reports shall be transmitted to the legislative fiscal committees or by electronic means to the legislative evaluation and 17 accountability program committee. Quarterly reports shall include 18 19 actual monthly data and the variance between actual and estimated data 20 to date. The reports shall also include estimates of these items for the remainder of the budget period. 21

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- (3) The director of financial management shall report at least annually to the appropriate legislative committees regarding the status of all appropriated capital projects, including transportation projects, showing significant cost overruns or underruns. If funds are shifted from one project to another, the office of financial management shall also reflect this in the annual variance report. Once a project is complete, the report shall provide a final summary showing estimated start and completion dates of each project phase compared to actual dates, estimated costs of each project phase compared to actual costs, and whether or not there are any outstanding liabilities or unsettled claims at the time of completion.
- 33 (4) In addition, the director of financial management, as agent of 34 the governor, shall:
- 35 (a) <u>Develop and maintain a system of internal controls and internal</u>
 36 <u>audits comprising methods and procedures to be adopted by each agency</u>
 37 <u>which will safeguard its assets, check the accuracy and reliability of</u>
 38 <u>its accounting data, promote operational efficiency, and encourage</u>
 39 <u>adherence to prescribed managerial policies for accounting and</u>

- financial controls. The system developed by the director shall include
 criteria for determining the scope and comprehensiveness of internal
- 3 <u>controls required by classes of agencies, depending on the level of</u> 4 <u>resources at risk.</u>
- Each agency head or authorized designee shall be assigned the responsibility and authority for establishing and maintaining internal controls following the standards of internal auditing of the institute of internal auditors;
- 9 <u>(b)</u> Make surveys and analyses of agencies with the object of determining better methods and increased effectiveness in the use of manpower and materials; and the director shall authorize expenditures for employee training to the end that the state may benefit from training facilities made available to state employees;
- 14 (((b))) <u>(c)</u> Report to the governor with regard to duplication of 15 effort or lack of coordination among agencies;
- (((c))) (d) Review any pay and classification plans, and changes 16 17 thereunder, developed by any agency for their fiscal impact: PROVIDED, That none of the provisions of this subsection shall affect merit 18 19 systems of personnel management now existing or hereafter established by statute relating to the fixing of qualifications requirements for 20 recruitment, appointment, or promotion of employees of any agency. The 21 director shall advise and confer with agencies including appropriate 22 standing committees of the legislature as may be designated by the 23 24 speaker of the house and the president of the senate regarding the 25 fiscal impact of such plans and may amend or alter said plans, except 26 that for the following agencies no amendment or alteration of said plans may be made without the approval of the agency concerned: 27 Agencies headed by elective officials; 28
- ((\(\frac{(d)}{(d)}\)) (e) Fix the number and classes of positions or authorized man years of employment for each agency and during the fiscal period amend the determinations previously fixed by the director except that the director shall not be empowered to fix said number or said classes for the following: Agencies headed by elective officials;
- (((e))) <u>(f)</u> Provide for transfers and repayments between the budget stabilization account and the general fund as directed by appropriation and RCW 43.88.525 through 43.88.540;
- 37 $((\frac{f)}{promulgate} \frac{regulations}{regulations}))$ (g) Adopt rules to effectuate 38 provisions contained in (a) through $(\frac{f}{promulgate})$ of this subsection.
 - (5) The treasurer shall:

- (a) Receive, keep, and disburse all public funds of the state not 1 2 expressly required by law to be received, kept, and disbursed by some 3 other persons: PROVIDED, That this subsection shall not apply to those 4 public funds of the institutions of higher learning which are not subject to appropriation;
- (b) Disburse public funds under the treasurer's supervision or 6 7 custody by warrant or check;

- 8 (c) Keep a correct and current account of all moneys received and 9 disbursed by the treasurer, classified by fund or account;
- 10 (d) Perform such other duties as may be required by law or by regulations issued pursuant to this law. 11

It shall be unlawful for the treasurer to issue any warrant or 12 check for public funds in the treasury except upon forms duly 13 prescribed by the director of financial management. Said forms shall 14 15 provide for authentication and certification by the agency head or the 16 agency head's designee that the services have been rendered or the 17 materials have been furnished; or, in the case of loans or grants, that the loans or grants are authorized by law; or, in the case of payments 18 19 for periodic maintenance services to be performed on state owned equipment, that a written contract for such periodic maintenance 20 services is currently in effect and copies thereof are on file with the 21 office of financial management; and the treasurer shall not be liable 22 under the treasurer's surety bond for erroneous or improper payments so 23 24 made: PROVIDED, That when services are lawfully paid for in advance of 25 full performance by any private individual or business entity other 26 than as provided for by RCW 42.24.035, such individual or entity other 27 than central stores rendering such services shall make a cash deposit 28 or furnish surety bond coverage to the state as shall be fixed in an 29 amount by law, or if not fixed by law, then in such amounts as shall be 30 fixed by the director of the department of general administration but 31 in no case shall such required cash deposit or surety bond be less than an amount which will fully indemnify the state against any and all 32 33 losses on account of breach of promise to fully perform such services: 34 AND PROVIDED FURTHER, That no payments shall be made in advance for any 35 equipment maintenance services to be performed more than three months after such payment. Any such bond so furnished shall be conditioned 36 37 that the person, firm or corporation receiving the advance payment will apply it toward performance of the contract. The responsibility for 38 39 recovery of erroneous or improper payments made under this section

- shall lie with the agency head or the agency head's designee in accordance with regulations issued pursuant to this chapter. Nothing in this section shall be construed to permit a public body to advance funds to a private service provider pursuant to a grant or loan before services have been rendered or material furnished.
 - (6) The state auditor shall:

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- (a) Report to the legislature the results of current post audits that have been made of the financial transactions of each agency; to this end the auditor may, in the auditor's discretion, examine the books and accounts of any agency, official or employee charged with the receipt, custody or safekeeping of public funds. Where feasible in conducting examinations, the auditor shall utilize data and findings from the internal control system prescribed by the office of financial management. The current post audit of each agency may include a section on recommendations to the legislature as provided in (c) of this subsection.
- 17 (b) Give information to the legislature, whenever required, upon 18 any subject relating to the financial affairs of the state.
 - (c) Make the auditor's official report on or before the thirtyfirst of December which precedes the meeting of the legislature. report shall be for the last complete fiscal period and shall include ((at least the following:)) determinations as to whether agencies, in making expenditures, complied with the laws of this state((: PROVIDED, That nothing in this section may be construed to grant)). The state auditor ((the right)) is authorized to perform or participate in performance audits only as expressly authorized by the legislature in the omnibus biennial appropriations acts. A performance audit for the purpose of this section is the examination of the effectiveness of the administration, its efficiency, and its adequacy in terms of the programs of departments or agencies as previously approved by the legislature. ((The authority and responsibility to conduct such an examination shall be vested in the legislative budget committee as prescribed in RCW 44.28.085.)) The state auditor, upon completing an audit for legal and financial compliance under chapter 43.09 RCW, may report to the legislative budget committee or other appropriate committees of the legislature, in a manner prescribed by the legislative budget committee, on facts relating to the management or performance of governmental programs where such facts are discovered incidental to the legal and financial audit: PROVIDED, That the

- auditor may make such a report to a legislative committee only if the 1 auditor has determined that the agency has been given an opportunity 2 and has failed to resolve the management or performance issues raised 3 4 by the auditor. If the auditor makes a report to a legislative committee, the agency may submit to the committee a response to the 5 report. This subsection (6) shall not be construed to authorize the 6 auditor to allocate other than de minimis resources to performance 7 8 audits except as expressly authorized in the appropriations acts.
- 9 (d) Be empowered to take exception to specific expenditures that 10 have been incurred by any agency or to take exception to other practices related in any way to the agency's financial transactions and 11 to cause such exceptions to be made a matter of public record, 12 13 including disclosure to the agency concerned and to the director of 14 financial management. It shall be the duty of the director of 15 financial management to cause corrective action to be taken promptly, 16 such action to include, as appropriate, the withholding of funds as 17 provided in RCW 43.88.110.
 - (e) Promptly report any irregularities to the attorney general.
- 19 (f) Investigate improper governmental activity under chapter 42.40 20 RCW.
 - (7) The legislative budget committee may:

- (a) Make post audits of the financial transactions of any agency and management surveys and program reviews as provided for in RCW 44.28.085 as well as performance audits and program evaluations. To this end the committee may in its discretion examine the books, accounts, and other records of any agency, official, or employee.
- (b) Give information to the legislature or any legislative committee whenever required upon any subject relating to the performance and management of state agencies.
- 30 (c) Make a report to the legislature which shall include at least 31 the following:
- (i) Determinations as to the extent to which agencies in making expenditures have complied with the will of the legislature and in this connection, may take exception to specific expenditures or financial practices of any agencies; and
- 36 (ii) Such plans as it deems expedient for the support of the 37 state's credit, for lessening expenditures, for promoting frugality and 38 economy in agency affairs and generally for an improved level of fiscal 39 management.

- NEW SECTION. **Sec. 5.** A new section is added to chapter 44.28 RCW to read as follows:
- 3 (1) In conducting program evaluations as defined in RCW 43.88.020, 4 the legislative budget committee shall establish a biennial work plan 5 that identifies state agency programs for which formal evaluation 6 appears necessary. Among the factors to be considered in preparing the 7 work plan are:
- 8 (a) Whether a program newly created or significantly altered by the 9 legislature warrants continued oversight because (i) the fiscal impact 10 of the program is significant, or (ii) the program represents a 11 relatively high degree of risk in terms of reaching the stated goals 12 and objectives for that program;
- 13 (b) Whether implementation of an existing program has failed to 14 meet its goals and objectives by any significant degree.
- 15 (2) The project description for each program evaluation shall 16 include start and completion dates, the proposed research approach, and 17 cost estimates.
- 18 (3) The overall plan may include proposals to employ contract 19 evaluators. As conditions warrant, the program evaluation work plan 20 may be amended from time to time. All biennial work plans shall be 21 transmitted to the appropriate fiscal and policy committees of the 22 senate and the house of representatives.
- 23 **Sec. 6.** RCW 44.28.085 and 1975 1st ex.s. c 293 s 15 are each 24 amended to read as follows:

The legislative budget committee shall make management surveys and 25 program reviews as to every public body, officer or employee subject to 26 the provisions of RCW 43.09.290 through 43.09.340. The legislative 27 budget committee may also make management surveys and program reviews 28 29 of local school districts, intermediate school districts, and other units of local government receiving state funds as grants-in-aid or as 30 shared revenues. Management surveys for the purposes of this section 31 32 shall be an independent examination for the purpose of providing the 33 legislature with an evaluation and report of the manner in which any 34 public agency, officer, administrator, or employee has discharged the responsibility to faithfully, efficiently, and effectively administer 35 36 any legislative purpose of the state. Program reviews for the purpose of this section shall be an examination of state or local government 37 programs to ascertain whether or not such programs continue to serve 38

- their intended purposes, are conducted in an efficient and effective manner, or require modification or elimination: PROVIDED, That nothing in this section shall limit the power or duty of the state auditor to report to the legislature as directed by ((subsection (3) of)) RCW 43.88.160 ((as now or hereafter amended. The authority in this section
- The legislative budget committee shall receive a copy of each report of examination issued by the state auditor under RCW 43.09.310, shall review all such reports, and shall make such recommendations to the legislature and to the state auditor as it deems appropriate."

conferred excludes a like authority in the state auditor)).

11 **ESHB 1372** - S COMM AMD

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- 12 By Committee on Ways & Means
- 13 ADOPTED 4/16/93
- On page 1, line 1 of the title, after "government;" strike the
- 15 remainder of the title and insert "amending RCW 43.88.020, 43.88.090,
- 16 43.88.160, and 44.28.085; adding a new section to chapter 44.28 RCW;
- 17 and creating a new section."

--- END ---