

2 **E2SHB 2881** - S COMM AMD
3 By Committee on Government Operations

4 ADOPTED 3/6/98

5 Strike everything after the enacting clause and insert the
6 following:

7 "NEW SECTION. **Sec. 1.** The legislature finds that the state
8 auditor lacks the needed authority to investigate the finances of state
9 nongovernmental contractors. The legislature further finds that
10 current contract oversight and management procedures cannot ensure that
11 services under contract are delivered effectively and efficiently.
12 Therefore, the legislature intends to enhance the authority of the
13 state auditor to audit entities that provide services to the state or
14 its clients under contract with state agencies.

15 **Sec. 2.** RCW 43.88.570 and 1997 c 374 s 3 are each amended to read
16 as follows:

17 (1) Each state agency shall submit a report to the office of the
18 state auditor listing each nongovernment entity that received over
19 three hundred thousand dollars in state moneys during the previous
20 fiscal year under contract with the agency for purposes related to the
21 provision of social services. The report must be submitted by
22 September 1 each year, and must be in a form prescribed by the office
23 of the state auditor.

24 (2) The office of the state auditor shall select ~~((two groups of~~
25 ~~entities from the reports for audit as follows:~~

26 ~~(a) The first group shall be selected))~~ at random a group of
27 entities from the reports using a procedure prescribed by the office of
28 the state auditor. The office of the state auditor shall ensure that
29 the number of entities selected under this subsection (2)~~((a))~~ each
30 year is sufficient to ensure a statistically representative sample of
31 all reported entities.

32 ~~((b) The second group shall be selected based on a risk assessment~~
33 ~~of entities conducted by the office of the state auditor in~~
34 ~~consultation with state agencies. The office of the state auditor~~
35 ~~shall consider, at a minimum, the following factors when conducting~~

1 ~~risk assessments: Findings from previous audits; decentralization of~~
2 ~~decision making and controls; turnover in officials and key personnel;~~
3 ~~changes in management structure or operations; and the presence of new~~
4 ~~programs, technologies, or funding sources.))~~

5 (3) Each entity selected under subsection (2) of this section shall
6 be required to complete a comprehensive entity-wide audit in accordance
7 with generally accepted government auditing standards. The audit shall
8 be completed by, or under the supervision of, a certified public
9 accountant licensed in this state. The audit shall determine, at a
10 minimum, whether:

11 (a) The financial statements of the entity are presented fairly in
12 all material respects in conformity with generally accepted accounting
13 principles;

14 (b) The schedule of expenditures of state moneys is presented
15 fairly in all material respects in relation to the financial statements
16 taken as a whole;

17 (c) Internal accounting controls exist and are effective; and

18 (d) The entity has complied with laws, regulations, and contract
19 and grant provisions that have a direct and material effect on
20 performance of the contract and the expenditure of state moneys.

21 (4) The office of the state auditor shall also select a second
22 group based on a risk assessment of entities conducted by the office of
23 the state auditor in consultation with state agencies. The office of
24 the state auditor shall consider, at a minimum, the following factors
25 when conducting risk assessments: Findings from audits of entities
26 under contract with the state to provide services for the same state or
27 federal program; findings from previous audits; decentralization of
28 decision making and controls; turnover in officials and key personnel;
29 changes in management structure or operations; and the presence of new
30 programs, technologies, or funding sources.

31 (5) The office of the state auditor is required to complete a
32 comprehensive entity-wide audit, in accordance with generally accepted
33 government auditing standards, of each entity selected under subsection
34 (4) of this section. The office of the state auditor may procure the
35 services of a certified public accountant to perform such an audit, as
36 set forth under RCW 43.09.045. The audit shall determine, at a
37 minimum, whether:

1 (a) The financial statements of the entity are presented fairly in
2 all material respects in conformity with generally accepted accounting
3 principles;

4 (b) The schedule of expenditures of state moneys is presented
5 fairly in all material respects in relation to the financial statements
6 taken as a whole;

7 (c) Internal accounting controls exist and are effective; and

8 (d) The entity has complied with statutes, rules, regulations, and
9 contract and grant provisions that have a direct and material effect on
10 performance of the contract and the expenditure of state moneys.

11 (6) The office of the state auditor shall prescribe policies and
12 procedures for the conduct of audits under this section. The office of
13 the state auditor shall deem single audits completed in compliance with
14 federal requirements to be in fulfillment of the requirements of this
15 section if the audit meets the requirements of subsection (3)(a)
16 through (d) or subsection (5)(a) through (d) of this section. If the
17 entity is selected under subsection (4) of this section, the office of
18 the state auditor shall review the single audit to determine if there
19 is evidence of misuse of public moneys.

20 ~~((+5))~~ (7) Completed audits must be delivered to the office of the
21 state auditor and the state agency by April 1 in the year following the
22 selection of the entity for audit. Entities must resolve any findings
23 contained in the audit within six months of the delivery of the audit.
24 Entities may not enter into new contracts with state agencies until all
25 major audit findings are resolved.

26 ~~((+6))~~ (8) Nothing in this section limits the authority of the
27 state auditor to carry out statutorily and contractually prescribed
28 powers and duties.

29 NEW SECTION. Sec. 3. A new section is added to chapter 43.09 RCW
30 to read as follows:

31 The state auditor may, where there is reasonable cause to believe
32 that a misuse of state moneys has occurred, conduct an audit of
33 financial and legal compliance of any entity that receives public
34 moneys through contract or grant in return for services. This
35 authority includes examinations of not-for-profit corporations who
36 provide personal services to a state agency or to clients of a state
37 agency. Such a financial audit shall be performed in a manner
38 consistent with this chapter, and may be performed according to an

1 agreed upon procedures engagement as in the existing 1998 standards of
2 the American institute of certified public accountants professional
3 standards section 600.

4 The state auditor may charge the contracting agency, whether state
5 or local, for the costs of an audit of a not-for-profit corporation
6 that receives public moneys through contract or grant in return for
7 services. Any contracting agency that is responsible to the state
8 auditor for such costs shall use due diligence to recover costs from
9 the audited entity.

10 NEW SECTION. **Sec. 4.** A new section is added to chapter 43.09 RCW
11 to read as follows:

12 If after a financial audit of an entity that receives public moneys
13 under contract or grant in return for services, there is reasonable
14 cause to believe that a criminal misuse of public moneys has occurred,
15 the office of the state auditor, within thirty days from receipt of the
16 report, shall deliver a copy of the report to the appropriate local
17 prosecuting authority.

18 NEW SECTION. **Sec. 5.** If specific funding for the purposes of this
19 act, referencing this act by bill or chapter number, is not provided by
20 June 30, 1998, in the omnibus appropriations act, this act is null and
21 void."

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25 On page 1, line 2 of the title, after "auditor;" strike the
26 remainder of the title and insert "amending RCW 43.88.570; adding new
27 sections to chapter 43.09 RCW; and creating new sections."

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