

# HOUSE BILL REPORT

## HB 2881

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**As Reported By The House Select Committee On:**

Vendor Contracting & Services  
Government Administration  
Appropriations

**Title:** An act relating to audits of state contractors by the state auditor.

**Brief Description:** Auditing state contractors.

**Sponsors:** Representatives Clements, Dickerson, Parlette, Gombosky, Backlund, Gardner, Delvin, O'Brien and Lambert.

**Brief History:**

**Committee Activity:**

Vendor Contracting & Services: 1/27/98, 2/3/98 [DPS];  
Government Administration: 2/5/98 [DPS(SVC)];  
Appropriations: 2/7/98 [DP2S(w/o sub SVC)].

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### HOUSE SELECT COMMITTEE ON VENDOR CONTRACTING & SERVICES

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Clements, Chairman; Backlund; Delvin; Dickerson; Gardner; Gombosky and Parlette.

**Staff:** Josh Weiss (786-7292).

**Background:** The Office of the State Auditor currently is required by RCW 43.88.570 to oversee random audits of nongovernment entities who receive over \$300,000 worth of state moneys in exchange for the provision of social services. State agencies are required to prepare lists of nongovernment entities who meet the audit criteria, and report the lists to the Office of the State Auditor. The state auditor is required to generate two groups of nongovernment entities who will be audited: (1) a randomly selected group which is statistically representative of the total number of nongovernment entities reported by the state agencies, and; (2) a second group which is chosen according to listed risk-assessment factors. All required audits are performed by private CPAs, according to standards established by the state auditor.

With the exception of the above procedure, the state auditor is currently unable to audit entities which receive public moneys through contract or grant in return for services.

This is true even if there are indications that such an entity is not maintaining adequate financial records, or is misusing state money.

**Summary of Substitute Bill:** RCW 43.88.570 is amended with regard to annual audits of nongovernment entities. The first group of nongovernment entities, those randomly selected, choose a licensed CPA who will perform the audit. The second group of entities, selected according to the risk-assessment model, are audited directly by the auditor. In creating this second group, the state auditor is required to consider findings of audits from other nongovernment entities who provide services under the same state or federal program. The auditor is required to review the results of the audits from the risk-assessment group to determine if there is evidence of misuse of public moneys.

The state auditor is given the ability to investigate vendors who provide services to state agencies or their clients, including nonprofits. The ability is discretionary, where there is "reasonable cause to believe that a misuse of state moneys has occurred." The state auditor must report any misuse of state moneys to the local prosecuting attorney.

**Substitute Bill Compared to Original Bill:** The intent section (Sec. 1) is amended to eliminate the implication that agencies are responsible for contract "mismanagement," and is clarified to indicate that the auditor's lack of authority only extends to "non-governmental" contractors.

Provisions formerly relating to the auditor's creation of a list of approved CPAs who would be authorized to perform audits have been replaced, allowing any CPA licensed in Washington to perform these audits. Former subsection 4 has been deleted, and this portion has been consolidated into subsection 3. The auditor, in Section 2(5), is given the authority to procure the services of a CPA in performing risk-assessment based audits.

Section 3 allows the auditor to charge the contracting agency, whether state or local, for the costs of discretionary audits. The agency is responsible for using due diligence in recovering the costs of an audit from the entity being audited.

The language requiring the auditor to deliver copies of audits to numerous governmental entities has been deleted from Section 3, since this reporting would already be required under this chapter. Section 3 requires that audits cover legal as well as financial compliance.

Section 4 is substantially amended to allow the auditor to forward copies of audits which create a reasonable cause to believe that a criminal misuse of public moneys has occurred to the local prosecuting attorney, as opposed to the attorney general. The attorney general is no longer required to prosecute findings of the auditor.

The appropriation is increased to \$200,000 for section 3 of the bill alone.

**Appropriation:** The sum of \$200,000 is appropriated to the Office of the State Auditor for the fiscal year ending June 30, 1999.

**Fiscal Note:** Requested on January 20, 1998.

**Effective Date of Substitute Bill:** The substitute bill contains an emergency clause and takes effect immediately.

**Testimony For:** Client confidentiality must be maintained when performing an audit. Entities which receive less than \$300,000 should also be audited, and perhaps the threshold should be lowered to \$50,000 or \$100,000.

**Testimony Against:** None.

**Testified:** Margaret Casey, Washington State Catholic Conference (pro). Linda Long, Office of the State Auditor (comments only.)

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## HOUSE COMMITTEE ON GOVERNMENT ADMINISTRATION

**Majority Report:** The substitute bill by Committee on Select Vendor Committee be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives D. Schmidt, Chairman; D. Sommers, Vice Chairman; Scott, Ranking Minority Member; Gardner, Assistant Ranking Minority Member; Doumit; Dunn; Dunshee; Murray; Reams; Smith; L. Thomas; Wensman and Wolfe.

**Staff:** Josh Weiss (786-7292).

**Summary of Recommendation of Committee on Government Administration Compared to Recommendation of Committee on Vendor Contracting & Services:**  
No new changes.

**Appropriation:** The sum of \$200,000 is appropriated to the Office of the State Auditor for the fiscal year ending June 30, 1999.

**Fiscal Note:** Requested on January 20, 1998.

**Effective Date of Substitute Bill:** The substitute bill contains an emergency clause and takes effect immediately.

**Testimony For:** None.

**Testimony Against:** None

**Testified:** None.

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## HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Select Committee on Vendor Contracting & Services. Signed by 29 members: Representatives Huff, Chairman; Alexander, Vice Chairman; Clements, Vice Chairman; Wensman, Vice Chairman; H. Sommers, Ranking Minority Member; Doumit, Assistant Ranking Minority Member; Gombosky, Assistant Ranking Minority Member; Benson; Carlson; Chopp; Cody; Cooke; Crouse; Grant; Keiser; Kenney; Kessler; Lambert; Lisk; Mastin; McMorris; Parlette; Poulsen; Regala; D. Schmidt; Sehlin; Sheahan; Talcott and Tokuda.

**Staff:** Joe Hauth (786-7271).

**Summary of Recommendation of Committee on Appropriations Compared to Recommendation of Select Committee on Vendor Contracting & Services:** If the state auditor has reasonable cause to believe that a misuse of state funds occurred, the auditor may conduct a financial audit in accordance with the act and preferred standards of the American Institute of Certified Public Accountants. The bill is null and void unless funded in the budget.

**Appropriation:** The sum of \$200,000 is appropriated to the Office of the State Auditor for the fiscal year ending June 30, 1999.

**Fiscal Note:** Available.

**Effective Date** Ninety days after adjournment of session in which bill is passed. However, the bill is null and void unless funded in the budget.

**Testimony For:** Some of the largest not-for-profit organizations have had some problems. The bill is intended to ensure that state money goes into the hands of the people for whom it is intended. The Washington State Catholic Conference is probably one of the largest social-service providers, and it supports these measures. The State Auditor's Office supports the bill.

**Testimony Against:** None.

**Testified:** Representative Clements, prime sponsor; Margaret Casey, Washington State Catholic Conference; and Linda Long, State Auditor's Office.