
HOUSE BILL 2881

State of Washington

55th Legislature

1998 Regular Session

By Representatives Clements, Dickerson, Parlette, Gombosky, Backlund, Gardner, Delvin, O'Brien and Lambert

Read first time 01/21/98. Referred to Committee on Select Vendor Committee.

1 AN ACT Relating to audits of state contractors by the state
2 auditor; amending RCW 43.88.570; adding new sections to chapter 43.09
3 RCW; creating a new section; making an appropriation; and declaring an
4 emergency.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 NEW SECTION. **Sec. 1.** The legislature finds that mismanagement of
7 agency contract resources is often difficult to discover, given the
8 state auditor's lack of authority to investigate the finances of state
9 contractors. The legislature further finds that current contract
10 oversight and management procedures cannot ensure that services under
11 contract are delivered effectively and efficiently. Therefore, the
12 legislature intends to enhance the authority of the state auditor to
13 audit entities that provide services to the state or its clients under
14 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

1 three hundred thousand dollars in state moneys during the previous
2 fiscal year under contract with the agency for purposes related to the
3 provision of social services. The report must be submitted by
4 September 1 each year, and must be in a form prescribed by the office
5 of the state auditor.

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

8 ~~(a) The first group shall be selected))~~ at random a group of
9 entities from the reports using a procedure prescribed by the office of
10 the state auditor. The office of the state auditor shall ensure that
11 the number of entities selected under this subsection (2)~~((a))~~ each
12 year is sufficient to ensure a statistically representative sample of
13 all reported entities.

14 ~~((b) The second group shall be selected based on a risk assessment~~
15 ~~of entities conducted by the office of the state auditor in~~
16 ~~consultation with state agencies. The office of the state auditor~~
17 ~~shall consider, at a minimum, the following factors when conducting~~
18 ~~risk assessments: Findings from previous audits; decentralization of~~
19 ~~decision making and controls; turnover in officials and key personnel;~~
20 ~~changes in management structure or operations; and the presence of new~~
21 ~~programs, technologies, or funding sources.))~~

22 (3) Each entity selected under subsection (2) of this section shall
23 be required to complete a comprehensive entity-wide audit in accordance
24 with generally accepted government auditing standards. The audit shall
25 be completed by, or under the supervision of, a certified public
26 accountant from the list created under subsection (4) of this section.
27 The audit shall determine, at a minimum, whether:

28 (a) The financial statements of the entity are presented fairly in
29 all material respects in conformity with generally accepted accounting
30 principles;

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

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

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

38 (4) The office of the state auditor shall create a list of
39 certified public accountants who may conduct the audits required by

1 subsection (3) of this section. The office of the state auditor shall
2 select certified public accountants based on reputation, experience and
3 competency in performing public audits, and geographic distribution.

4 (5) The office of the state auditor shall also select a second
5 group based on a risk assessment of entities conducted by the office of
6 the state auditor in consultation with state agencies. The office of
7 the state auditor shall consider, at a minimum, the following factors
8 when conducting risk assessments: Findings from audits of entities
9 under contract with the state to provide services under the same state
10 or federal program; findings from previous audits; decentralization of
11 decision making and controls; turnover in officials and key personnel;
12 changes in management structure or operations; and the presence of new
13 programs, technologies, or funding sources.

14 (6) The office of the state auditor is required to complete a
15 comprehensive entity-wide audit, in accordance with generally accepted
16 government auditing standards, of each entity selected under subsection
17 (5) of this section. The audit shall determine, at a minimum, whether:

18 (a) The financial statements of the entity are presented fairly in
19 all material respects in conformity with generally accepted accounting
20 principles;

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

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

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

28 (7) The office of the state auditor shall prescribe policies and
29 procedures for the conduct of audits under this section. The office of
30 the state auditor shall deem single audits completed in compliance with
31 federal requirements to be in fulfillment of the requirements of this
32 section if the audit meets the requirements of subsection (3)(a)
33 through (d) or subsection (6)(a) through (d) of this section. If the
34 entity is selected under subsection (5) of this section, the office of
35 the state auditor shall review the single audit to determine if there
36 is evidence of misuse of public moneys.

37 ~~((+5))~~ (8) Completed audits must be delivered to the office of the
38 state auditor and the state agency by April 1 in the year following the
39 selection of the entity for audit. Entities must resolve any findings

1 contained in the audit within six months of the delivery of the audit.
2 Entities may not enter into new contracts with state agencies until all
3 major audit findings are resolved.

4 ~~((+6))~~ (9) Nothing in this section limits the authority of the
5 state auditor to carry out statutorily and contractually prescribed
6 powers and duties.

7 NEW SECTION. **Sec. 3.** A new section is added to chapter 43.09 RCW
8 to read as follows:

9 The state auditor may, where there is reasonable cause to believe
10 that a misuse of state moneys has occurred, conduct a financial audit
11 of any entity that receives public moneys through contract or grant in
12 return for services. This authority includes investigations of not-
13 for-profit corporations who provide personal services to a state agency
14 or to clients of a state agency. Such a financial audit shall be
15 performed in a manner consistent with this chapter.

16 A report shall be made of each financial audit upon completion, and
17 one copy shall be transmitted to each of the following: The governor,
18 the director of financial management, the contracting state agency, the
19 joint legislative audit and review committee, the house of
20 representatives committee on appropriations, the senate committee on
21 ways and means, the chief clerk of the house of representatives, the
22 secretary of the senate, and the office of the state auditor to be kept
23 on file. A copy of any report containing findings of misuse of state
24 moneys shall be transmitted to the attorney general.

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

27 If any financial audit of an entity that receives public moneys
28 under contract or grant in return for services discloses probable cause
29 of criminal misuse of public moneys, within thirty days from the
30 receipt of his or her copy of the report, the attorney general shall
31 institute and prosecute in the proper county the appropriate legal
32 action to carry into effect the findings of such a financial audit.

33 NEW SECTION. **Sec. 5.** The sum of one hundred thousand dollars, or
34 as much thereof as may be necessary, is appropriated from the general
35 fund to the office of the state auditor for the fiscal year ending June
36 30, 1999. The appropriation in this section is provided solely for the

1 purposes of section 3 of this act, and any portion of this amount that
2 is unnecessary to fulfill these purposes shall lapse.

3 NEW SECTION. **Sec. 6.** This act is necessary for the immediate
4 preservation of the public peace, health, or safety, or support of the
5 state government and its existing public institutions, and takes effect
6 immediately.

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