

HOUSE BILL REPORT

E2SHB 2563

As Passed House:

February 18, 2002

Title: An act relating to performance audits.

Brief Description: Creating the governor's performance audit standards and scorecard commission.

Sponsors: By House Committee on Appropriations (originally sponsored by Representatives Miloscia, O'Brien, Kirby, Kessler, Haigh and McIntire).

Brief History:

Committee Activity:

State Government: 2/7/02, 2/8/02 [DPS];

Appropriations: 2/12/02 [DP2S(w/o sub SG)].

Floor Activity:

Passed House: 2/18/02, 61-36.

Brief Summary of Engrossed Second Substitute Bill

- Establishes an on-going performance audit and yearly scoring program in the Office of Financial Management (OFM).
- Creates the Governor's Performance Audit Standards and Scorecard Commission.
- Directs OFM, in consultation with the new commission, to conduct independent performance audits and scoring for state government entities.
- Authorizes and requires the state auditor to conduct a pilot performance audit of the Department of Agriculture by December 31, 2002.

HOUSE COMMITTEE ON STATE GOVERNMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Romero, Chair; Miloscia, Vice Chair; McDermott, Schindler, Schmidt and Upthegrove.

Staff: Marsha Reilly (786-7135).

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 Committee on State Government. Signed by 23 members: Representatives Sommers, Chair; Doumit, 1st Vice Chair; Fromhold, 2nd Vice Chair; Sehlin, Ranking Minority Member; Alexander, Boldt, Buck, Cody, Cox, Dunshee, Grant, Kagi, Kenney, Kessler, Linville, Mastin, McIntire, Pearson, Pflug, Ruderman, Schual-Berke, Talcott and Tokuda.

Minority Report: Do not pass. Signed by 2 members: Representatives Clements and Lisk.

Background:

The OFM provides necessary professional and technical assistance to assist state agencies in the development of strategic plans that include the mission of the agency and its programs, measurable goals, strategies, and performance measurement systems.

The State Auditor conducts financial audits and is authorized to perform or participate in performance verifications and performance audits only as expressly authorized by the Legislature in the omnibus biennial appropriations acts or in the performance audit work plan approved by the Joint Legislative Audit and Review Committee (JLARC).

The JLARC conducts performance audits, performance reviews, sunset reviews and other studies as directed by the Legislature. In addition to special studies delineated by the Legislature, the JLARC develops a biennial work plan that identifies state agency programs for evaluation.

Summary of Engrossed Second Substitute Bill:

The Governor's Performance Audit Standards and Scorecard Commission (the commission) is established. The commission includes seven citizen members who demonstrate professional knowledge and expertise in performance management, quality management, auditing, or a closely related field. The commission members will serve terms of four years and may be reappointed.

Duties of the commission include the following:

Assist in the development of criteria for performance excellence and a scoring system for grading agency performance; advise the Governor and director of the OFM on the conduct of the performance audit program; develop recommendations for the director of the OFM on the subjects of performance audits and the audit schedule; and evaluate audit findings and identify opportunities to develop government partnerships and eliminate program duplications and redundancies.

The OFM will staff the commission and implement the performance audit and scoring program. The role of the OFM includes the following:

1. Establish a program and strategic plan for the conduct of audits of state agencies and their programs and functions;
2. Conduct performance audits or contract with public or private entities with expertise in the conduct of public sector reviews;
3. Develop an implementation plan for a phased-in audit schedule for a program and periodic audit and scoring of all state agencies, including higher education;
4. Submit audit results, performance scoring, and any necessary implementing legislation to the Governor and the Legislature by November 1 of each year, and release audit results and performance scoring to the public;
5. Collect, disseminate, and share best practices to all state agencies and institutions of higher education; and
6. Contract for a performance audit of the developed audit and performance scoring program by November 1, 2004.

Performance audit is defined as an objective systematic assessment, survey, or directed self-assessment. The performance audits will include, but are not limited to quality and process management practices; independent and internal audit functions; internal and external customer satisfaction; program effectiveness; fiscal productivity and efficiency; regulatory and procedural compliance; and any other areas as appropriate.

The state auditor is authorized to perform a pilot performance audit of the Department of Agriculture using the same guidelines established for the Joint Legislative Audit and Review Committee (RCW 44.28.075). Completion of the audit is scheduled for December 31, 2002, and the results, including an overall assessment of the cost of the audit, will be presented to the appropriate policy and fiscal committees of the Legislature. The pilot project and authorization allowing the state auditor to conduct the performance audit expire June 30, 2003.

Testified: (State Government) (In support) Representative Miloscia, prime sponsor; and Fred Hellberg, Governor's Office.

(Information only) Robert Hill.

Staff: Patricia Linehan (786-7178).

Appropriation: None.

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: (State Government) (Substitute bill) Continuous improvement of our government, its operations, functions and customer satisfaction is needed and the commission establishes an independent body to advise the OFM in an audit program and yearly performance scoring system. The scoring system envisioned in this bill, similar to the one done by the Office of Management and Budget, will contribute toward improving the trust of the citizens of the state.

Effective efficiency and accountability are critical to improving public confidence in government. It is a hard, but necessary, job to evaluate programs to see that they are doing what was intended. Some concerns include the scope and breadth of some of the auditing targets, but overall the major elements are important.

(Original bill) It provides for a continuation of performance audit systems. The advantages are: 1) improved public confidence; 2) compatibility with zero-based budgeting; and 3) it sets a good example for local municipalities to follow. The disadvantages are: 1) revealed deficiencies through unfunded mandates make the Legislature look bad; 2) the courts are not included; and 3) the appropriation of just \$1 million is too small.

Testimony For: (Appropriations) The Office of Financial Management estimates that it will conduct six large and six small performance audits each year, and that it will provide support to the new commission. The level and scope of the work directed in this bill is similar to what the Joint Legislative Audit and Review Committee is currently doing. The OFM estimates the cost to be \$780,000 in fiscal year 2003 to get this started and approximately \$2.5 million per year to conduct about 12 audits per year. A majority of the funds will be used to contract with a private sector firm to perform the audits. The OFM would also require two or three staff to support the program. The audits will be fully integrated with the budget process, so the program should be housed at OFM.

Testimony Against: (State Government) None.

Testimony Against: (Appropriations) None.

Testified: (State Government) (State Government) (In support) Representative Miloscia, prime sponsor; and Fred Hellberg, Governor's Office.

(Information only) Robert Hill.

Testified: (Appropriations) Wolfgang Opitz, Office of Financial Management.