
ENGROSSED SECOND SUBSTITUTE HOUSE BILL 2563

State of Washington

57th Legislature

2002 Regular Session

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

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1 AN ACT Relating to performance audits; amending RCW 43.88.160;
2 adding new sections to chapter 43.41 RCW; creating new sections; and
3 providing an expiration date.

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

5 NEW SECTION. **Sec. 1.** A new section is added to chapter 43.41 RCW
6 to read as follows:

7 The legislature finds that public confidence in government is
8 essential and that programs to improve quality, efficiency, and
9 effectiveness of public functions must be enhanced. The legislature
10 recognizes that all Washington state agencies must transform the way
11 they operate and deliver services to respond to severe, ongoing budget
12 shortfalls and declining revenues.

13 The intent of this act is to establish an independent ongoing
14 performance audit and yearly scoring program in the office of financial
15 management for the conduct of independent performance audits and
16 scoring for state government entities to ensure all are world class in
17 management, program outcomes, customer satisfaction, and efficiency.
18 The office of financial management, in consultation with the governor's
19 performance audit standards and scorecard commission shall audit and

1 score government entities in order to assist them in developing the
2 management expertise to continuously improve through continuous
3 performance review and management leadership.

4 NEW SECTION. **Sec. 2.** A new section is added to chapter 43.41 RCW
5 to read as follows:

6 (1) The director of financial management shall establish a program
7 and strategic plan for the conduct of independent performance audits
8 and yearly performance scoring of state agencies and their programs and
9 functions.

10 (2) The office of financial management may contract with public or
11 private entities that have expertise in the conduct of public sector
12 reviews to perform the audits and performance scoring. Staff of the
13 office of financial management or other agency staff may also conduct
14 the audits.

15 (3) In consultation with the governor's performance audit standards
16 and scorecard commission, the office of financial management shall
17 develop an implementation plan for a phased-in audit schedule for a
18 program and periodic audit and scoring of all state government
19 agencies, including higher education.

20 (4) The director of financial management shall submit the results
21 of the performance audits, performance scoring, and any necessary
22 implementing legislation to the governor and the legislature by
23 November 1st of each year, and shall release audit results and
24 performance scoring to the public and provide public recognition for
25 outstanding effort.

26 (5) In consultation with the governor's performance audit standards
27 and scorecard commission, the office of financial management shall
28 collect, disseminate, and share best practices to all state agencies
29 and institutions of higher education.

30 (6) The director of financial management, in consultation with the
31 governor's performance audit standards and scorecard commission, shall
32 contract for a performance audit of the audit and performance scoring
33 program described in this section by a private professional by November
34 1, 2004.

35 NEW SECTION. **Sec. 3.** A new section is added to chapter 43.41 RCW
36 to read as follows:

1 The governor's performance audit standards and scorecard commission
2 is established.

3 (1) The commission consists of seven citizen members appointed to
4 staggered terms by the governor. The citizen members shall demonstrate
5 professional knowledge and expertise in performance management, quality
6 management, auditing, or a closely related field.

7 (2) The office of financial management shall provide the staff and
8 resources necessary for implementing sections 1 through 4 of this act.

9 (3) Except for initial members, commission members shall serve for
10 terms of four years, with the terms expiring on June 30th on the fourth
11 year of the term. Members may serve more than one term.

12 (4) Members of the commission shall be compensated in accordance
13 with RCW 43.03.220 and reimbursed for travel expenses under RCW
14 43.03.050 and 43.03.060.

15 NEW SECTION. **Sec. 4.** A new section is added to chapter 43.41 RCW
16 to read as follows:

17 The governor's performance audit standards and scorecard commission
18 shall:

19 (1) Assist in the development of criteria for performance audits
20 and a scoring system for grading overall agency performance. In
21 developing criteria and a scoring system, the commission shall consult
22 with and seek input from elected officials and professionals with a
23 background in performance management. Audit criteria shall be
24 distributed at least six weeks before an audit. The governor's
25 performance audit standards and scorecard commission shall consider
26 already developed best practices and audit criteria used by government
27 or nongovernment organizations;

28 (2) Advise the governor and the director of financial management on
29 the conduct of the performance audit program;

30 (3) Develop recommendations for the director of financial
31 management on the subjects of performance audits and the audit
32 schedule; and

33 (4) Evaluate audit findings and performance scoring in order to
34 identify opportunities to develop government partnerships and eliminate
35 program duplications and redundancies resulting in increased quality,
36 effectiveness, and efficiency of state agencies.

1 NEW SECTION. **Sec. 5.** A new section is added to chapter 43.41 RCW
2 to read as follows:

3 For purposes of sections 1 through 5 of this act, "performance
4 audit" means an objective systematic assessment, survey, or directed
5 self-assessment of state agencies, programs, functions, or activities
6 to provide for public accountability. Initial performance audits and
7 performance scoring shall include, but are not limited to: (1) Quality
8 and process management practices; (2) independent and internal audit
9 functions; (3) internal and external customer satisfaction; (4) program
10 effectiveness; (5) fiscal productivity and efficiency; (6) regulatory
11 and procedural compliance; and (7) any other areas as appropriate.

12 NEW SECTION. **Sec. 6.** (1) A pilot performance audit of the
13 department of agriculture is authorized to be performed in the 2001-
14 2003 biennium by the state auditor. In conducting the performance
15 audit, the office of the state auditor shall work in cooperation with
16 the office of financial management and state agency personnel. The
17 state auditor shall use the guidelines for a performance audit
18 contained in RCW 44.28.075.

19 (2) The performance audit of the department of agriculture by the
20 state auditor shall be completed by December 31, 2002, and shall be
21 presented to the appropriate policy and fiscal committees of the
22 legislature. The state auditor shall include in the report to the
23 legislature information on the staffing, time, and cost used by the
24 office of the state auditor to complete the performance audit of the
25 department of agriculture. This section shall expire June 30, 2003.

26 **Sec. 7.** RCW 43.88.160 and 1998 c 135 s 1 are each amended to read
27 as follows:

28 This section sets forth the major fiscal duties and
29 responsibilities of officers and agencies of the executive branch. The
30 regulations issued by the governor pursuant to this chapter shall
31 provide for a comprehensive, orderly basis for fiscal management and
32 control, including efficient accounting and reporting therefor, for the
33 executive branch of the state government and may include, in addition,
34 such requirements as will generally promote more efficient public
35 management in the state.

36 (1) Governor; director of financial management. The governor,
37 through the director of financial management, shall devise and

1 supervise a modern and complete accounting system for each agency to
2 the end that all revenues, expenditures, receipts, disbursements,
3 resources, and obligations of the state shall be properly and
4 systematically accounted for. The accounting system shall include the
5 development of accurate, timely records and reports of all financial
6 affairs of the state. The system shall also provide for central
7 accounts in the office of financial management at the level of detail
8 deemed necessary by the director to perform central financial
9 management. The director of financial management shall adopt and
10 periodically update an accounting procedures manual. Any agency
11 maintaining its own accounting and reporting system shall comply with
12 the updated accounting procedures manual and the rules of the director
13 adopted under this chapter. An agency may receive a waiver from
14 complying with this requirement if the waiver is approved by the
15 director. Waivers expire at the end of the fiscal biennium for which
16 they are granted. The director shall forward notice of waivers granted
17 to the appropriate legislative fiscal committees. The director of
18 financial management may require such financial, statistical, and other
19 reports as the director deems necessary from all agencies covering any
20 period.

21 (2) Except as provided in chapter 43.88C RCW, the director of
22 financial management is responsible for quarterly reporting of primary
23 operating budget drivers such as applicable workloads, caseload
24 estimates, and appropriate unit cost data. These reports shall be
25 transmitted to the legislative fiscal committees or by electronic means
26 to the legislative evaluation and accountability program committee.
27 Quarterly reports shall include actual monthly data and the variance
28 between actual and estimated data to date. The reports shall also
29 include estimates of these items for the remainder of the budget
30 period.

31 (3) The director of financial management shall report at least
32 annually to the appropriate legislative committees regarding the status
33 of all appropriated capital projects, including transportation
34 projects, showing significant cost overruns or underruns. If funds are
35 shifted from one project to another, the office of financial management
36 shall also reflect this in the annual variance report. Once a project
37 is complete, the report shall provide a final summary showing estimated
38 start and completion dates of each project phase compared to actual
39 dates, estimated costs of each project phase compared to actual costs,

1 and whether or not there are any outstanding liabilities or unsettled
2 claims at the time of completion.

3 (4) In addition, the director of financial management, as agent of
4 the governor, shall:

5 (a) Develop and maintain a system of internal controls and internal
6 audits comprising methods and procedures to be adopted by each agency
7 that will safeguard its assets, check the accuracy and reliability of
8 its accounting data, promote operational efficiency, and encourage
9 adherence to prescribed managerial policies for accounting and
10 financial controls. The system developed by the director shall include
11 criteria for determining the scope and comprehensiveness of internal
12 controls required by classes of agencies, depending on the level of
13 resources at risk.

14 Each agency head or authorized designee shall be assigned the
15 responsibility and authority for establishing and maintaining internal
16 audits following the standards of internal auditing of the institute of
17 internal auditors;

18 (b) Make surveys and analyses of agencies with the object of
19 determining better methods and increased effectiveness in the use of
20 manpower and materials; and the director shall authorize expenditures
21 for employee training to the end that the state may benefit from
22 training facilities made available to state employees;

23 (c) Establish policies for allowing the contracting of child care
24 services;

25 (d) Report to the governor with regard to duplication of effort or
26 lack of coordination among agencies;

27 (e) Review any pay and classification plans, and changes
28 thereunder, developed by any agency for their fiscal impact: PROVIDED,
29 That none of the provisions of this subsection shall affect merit
30 systems of personnel management now existing or hereafter established
31 by statute relating to the fixing of qualifications requirements for
32 recruitment, appointment, or promotion of employees of any agency. The
33 director shall advise and confer with agencies including appropriate
34 standing committees of the legislature as may be designated by the
35 speaker of the house and the president of the senate regarding the
36 fiscal impact of such plans and may amend or alter said plans, except
37 that for the following agencies no amendment or alteration of said
38 plans may be made without the approval of the agency concerned:
39 Agencies headed by elective officials;

1 (f) Fix the number and classes of positions or authorized man years
2 of employment for each agency and during the fiscal period amend the
3 determinations previously fixed by the director except that the
4 director shall not be empowered to fix said number or said classes for
5 the following: Agencies headed by elective officials;

6 (g) Adopt rules to effectuate provisions contained in (a) through
7 (f) of this subsection.

8 (5) The treasurer shall:

9 (a) Receive, keep, and disburse all public funds of the state not
10 expressly required by law to be received, kept, and disbursed by some
11 other persons: PROVIDED, That this subsection shall not apply to those
12 public funds of the institutions of higher learning which are not
13 subject to appropriation;

14 (b) Receive, disburse, or transfer public funds under the
15 treasurer's supervision or custody;

16 (c) Keep a correct and current account of all moneys received and
17 disbursed by the treasurer, classified by fund or account;

18 (d) Coordinate agencies' acceptance and use of credit cards and
19 other payment methods, if the agencies have received authorization
20 under RCW 43.41.180;

21 (e) Perform such other duties as may be required by law or by
22 regulations issued pursuant to this law.

23 It shall be unlawful for the treasurer to disburse public funds in
24 the treasury except upon forms or by alternative means duly prescribed
25 by the director of financial management. These forms or alternative
26 means shall provide for authentication and certification by the agency
27 head or the agency head's designee that the services have been rendered
28 or the materials have been furnished; or, in the case of loans or
29 grants, that the loans or grants are authorized by law; or, in the case
30 of payments for periodic maintenance services to be performed on state
31 owned equipment, that a written contract for such periodic maintenance
32 services is currently in effect and copies thereof are on file with the
33 office of financial management; and the treasurer shall not be liable
34 under the treasurer's surety bond for erroneous or improper payments so
35 made. When services are lawfully paid for in advance of full
36 performance by any private individual or business entity other than as
37 provided for by RCW 42.24.035, such individual or entity other than
38 central stores rendering such services shall make a cash deposit or
39 furnish surety bond coverage to the state as shall be fixed in an

1 amount by law, or if not fixed by law, then in such amounts as shall be
2 fixed by the director of the department of general administration but
3 in no case shall such required cash deposit or surety bond be less than
4 an amount which will fully indemnify the state against any and all
5 losses on account of breach of promise to fully perform such services.
6 No payments shall be made in advance for any equipment maintenance
7 services to be performed more than three months after such payment.
8 Any such bond so furnished shall be conditioned that the person, firm
9 or corporation receiving the advance payment will apply it toward
10 performance of the contract. The responsibility for recovery of
11 erroneous or improper payments made under this section shall lie with
12 the agency head or the agency head's designee in accordance with
13 regulations issued pursuant to this chapter. Nothing in this section
14 shall be construed to permit a public body to advance funds to a
15 private service provider pursuant to a grant or loan before services
16 have been rendered or material furnished.

17 (6) The state auditor shall:

18 (a) Report to the legislature the results of current post audits
19 that have been made of the financial transactions of each agency; to
20 this end the auditor may, in the auditor's discretion, examine the
21 books and accounts of any agency, official, or employee charged with
22 the receipt, custody, or safekeeping of public funds. Where feasible
23 in conducting examinations, the auditor shall utilize data and findings
24 from the internal control system prescribed by the office of financial
25 management. The current post audit of each agency may include a
26 section on recommendations to the legislature as provided in (c) of
27 this subsection.

28 (b) Give information to the legislature, whenever required, upon
29 any subject relating to the financial affairs of the state.

30 (c) Make the auditor's official report on or before the thirty-
31 first of December which precedes the meeting of the legislature. The
32 report shall be for the last complete fiscal period and shall include
33 determinations as to whether agencies, in making expenditures, complied
34 with the laws of this state. The state auditor is authorized to
35 perform or participate in performance verifications and performance
36 audits as expressly authorized by the legislature in the omnibus
37 biennial appropriations acts or in the performance audit work plan
38 approved by the joint legislative audit and review committee. The
39 state auditor, upon completing an audit for legal and financial

1 compliance under chapter 43.09 RCW or a performance verification, may
2 report to the joint legislative audit and review committee or other
3 appropriate committees of the legislature, in a manner prescribed by
4 the joint legislative audit and review committee, on facts relating to
5 the management or performance of governmental programs where such facts
6 are discovered incidental to the legal and financial audit or
7 performance verification. The auditor may make such a report to a
8 legislative committee only if the auditor has determined that the
9 agency has been given an opportunity and has failed to resolve the
10 management or performance issues raised by the auditor. If the auditor
11 makes a report to a legislative committee, the agency may submit to the
12 committee a response to the report. This subsection (6) shall not be
13 construed to authorize the auditor to allocate other than de minimis
14 resources to performance audits except as expressly authorized in
15 section 6 of this act, in the appropriations acts, or in the
16 performance audit work plan. The results of a performance audit
17 conducted by the state auditor that has been requested by the joint
18 legislative audit and review committee must only be transmitted to the
19 joint legislative audit and review committee.

20 (d) Be empowered to take exception to specific expenditures that
21 have been incurred by any agency or to take exception to other
22 practices related in any way to the agency's financial transactions and
23 to cause such exceptions to be made a matter of public record,
24 including disclosure to the agency concerned and to the director of
25 financial management. It shall be the duty of the director of
26 financial management to cause corrective action to be taken within six
27 months, such action to include, as appropriate, the withholding of
28 funds as provided in RCW 43.88.110. The director of financial
29 management shall annually report by December 31st the status of audit
30 resolution to the appropriate committees of the legislature, the state
31 auditor, and the attorney general. The director of financial
32 management shall include in the audit resolution report actions taken
33 as a result of an audit including, but not limited to, types of
34 personnel actions, costs and types of litigation, and value of recouped
35 goods or services.

36 (e) Promptly report any irregularities to the attorney general.

37 (f) Investigate improper governmental activity under chapter 42.40
38 RCW.

39 (7) The joint legislative audit and review committee may:

1 (a) Make post audits of the financial transactions of any agency
2 and management surveys and program reviews as provided for in chapter
3 44.28 RCW as well as performance audits and program evaluations. To
4 this end the joint committee may in its discretion examine the books,
5 accounts, and other records of any agency, official, or employee.

6 (b) Give information to the legislature or any legislative
7 committee whenever required upon any subject relating to the
8 performance and management of state agencies.

9 (c) Make a report to the legislature which shall include at least
10 the following:

11 (i) Determinations as to the extent to which agencies in making
12 expenditures have complied with the will of the legislature and in this
13 connection, may take exception to specific expenditures or financial
14 practices of any agencies; and

15 (ii) Such plans as it deems expedient for the support of the
16 state's credit, for lessening expenditures, for promoting frugality and
17 economy in agency affairs, and generally for an improved level of
18 fiscal management.

19 NEW SECTION. **Sec. 8.** If specific funding for the purposes of this
20 act, referencing this act by bill or chapter number, is not provided by
21 June 30, 2002, in the omnibus appropriations act, this act is null and
22 void.

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