

SENATE BILL REPORT

SB 6414

As Reported By Senate Committee On:
Government Operations & Elections, January 27, 2004

Title: An act relating to industrial insurance fund audits.

Brief Description: Requiring annual audits of the state industrial insurance fund.

Sponsors: Senators Roach, Rasmussen and Esser.

Brief History:

Committee Activity: Government Operations & Elections: 1/20/04, 1/27/04 [DPS, DNPS].

SENATE COMMITTEE ON GOVERNMENT OPERATIONS & ELECTIONS

Majority Report: That Substitute Senate Bill No. 6414 be substituted therefor, and the substitute bill do pass.

Signed by Senators Roach, Chair; Stevens, Vice Chair; Horn, Kastama and McCaslin.

Minority Report: Do not pass substitute.

Signed by Senator Fairley.

Staff: Diane Smith (786-7410)

Background: The Department of Labor and Industries administers the industrial insurance fund, which is also known as the workers' compensation fund. This fund is designed to insure the workers in the state from loss due to injuries incurred on the job. The fund has several component funds, including the accident fund, medical aid fund, pension reserve fund, supplemental pension fund and second injury fund.

The State Auditor has the statutory responsibility to audit the department at intervals determined by the State Auditor. This audit is a financial one. No provision is made for an actuarial audit.

Summary of Substitute Bill: The department must prepare financial statements for the state fund and at least its accident, medical aid, pension reserve, supplemental pension and second injury component funds, in accordance with generally accepted accounting principles.

The Joint Legislative Audit and Review Committee together with the office of the State Actuary must conduct annual audits of the state fund beginning in 2005, including a separate actuarial audit. Both audits are performed by contract with independent firms and may be performed by different firms.

The legislative auditor determines the scope of the audits. The scope of the financial audit must include at least an opinion on whether generally accepted accounting principles were followed by the department. The scope of the actuarial audit must include at least seven specific items relevant to actuarial science.

A report on both audits must be submitted annually by the legislative auditor to the Legislature, to the Office of Financial Management to the Attorney General and to the department. The department must give the legislative auditor written notice within six months of the issuance of the report of the audits, the measures the department has taken and proposed to respond to the audits' recommendations.

Substitute Bill Compared to Original Bill: The substitute bill removes the State Auditor from any duties under the bill and places those duties with the legislative auditor. Overseeing of the annual audits is done by the Joint Legislative Audit and Review Committee (JLARC) and the State Actuary. That separate firms may conduct the financial audit and the actuarial audit is clarified. The Attorney General is included in the notification and discussion process.

Appropriation: None.

Fiscal Note: Requested on January 20, 2004.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: This bill seeks independent review analogous to that considered normal, prudent practice for any public company or insurance company. The purpose of an audit is to instill confidence in the user of the information by an independent review by professionals with expertise in the field. A financial control is a process to ensure information is fairly presented. Both an audit and financial controls are needed in order to assess independently the need for rate changes. There is no intent that the same accounting firm do both the financial and actuarial audits.

Testimony Against: The State Auditor can already perform the audits mentioned in this bill. The department's actuarial assumptions are the most democratic and transparent in the country. Washington's workers' compensation costs are in the lower third of the nation and we are the only state where employees pay 25 percent of the cost. Our business rates are among the lowest in the country. This bill is not necessary because anyone can hire any firm to review the department's financial condition. The bill is premature because the Governor's task force will review all aspects of rate setting. The department does adhere to actuarial standards and generally accepted accounting principles. Its actuarial judgments are reviewed by the largest actuarial firm in the business. Rate decisions are made on fund policy and expectations for future events. Without policy consensus, this bill cannot improve transparency and accountability.

Testified: Amy Brackenbury, BIAW (pro); Kevin Wick, Price Waterhouse Coopers (pro); Frank Prochaska, Association of Western Pulp and Paper Workers (con); Jeff Johnson, Washington State Labor Council, AFL-CIO (con); Gary Smith, Ind. Bus. Assn. (pro); Carolyn Logue, Mark Johnson, NFIB (pro); Amber Balch Carter, AWB (pro); Paul Trause, Robert Malooly, L&I.