
HOUSE BILL 2880

State of Washington 58th Legislature 2004 Regular Session

By Representatives Haigh, Armstrong and Kessler

Read first time 01/22/2004. Referred to Committee on Commerce & Labor.

1 AN ACT Relating to industrial insurance fund audits; and adding a
2 new section to chapter 51.44 RCW.

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

4 NEW SECTION. **Sec. 1.** A new section is added to chapter 51.44 RCW
5 to read as follows:

6 (1) The department of labor and industries shall prepare financial
7 statements on the state fund in accordance with generally accepted
8 accounting principles, including but not limited to the accident fund,
9 the medical aid fund, the pension reserve fund, the supplemental
10 pension fund and the second injury fund.

11 (2) Beginning in 2005, the state auditor shall conduct annual
12 audits of the state fund. As part of these audits, the auditor shall
13 contract with firms qualified to perform a financial audit and a
14 separate independent actuarial audit.

15 (a) The firm or firms conducting the reviews shall be familiar with
16 the accounting standards applicable to the accounts under review, shall
17 have experience in workers' compensation reserving and rate making, and
18 shall employ a staff that includes no fewer than three people who have

1 attained fellowship in the casualty actuarial society and shall
2 maintain limits of errors and omission insurance as prescribed by the
3 auditor.

4 (b) The auditor shall determine the scope of the financial audit
5 which shall include, but is not limited to, an opinion on whether the
6 financial statements were prepared in accordance with generally
7 accepted accounting principles.

8 (c) The auditor shall determine the scope of the actuarial audit,
9 which shall include, but is not limited to:

10 (i) An independent estimate of the claim reserves;

11 (ii) An evaluation of the effect of discounting using various
12 investment yields on reported reserve levels;

13 (iii) A retrospective test of the accuracy of labor and industries
14 reserve estimates over at least a fifteen-year period;

15 (iv) An assessment of the actuarial calculations underlying the
16 break-even indicated rate level;

17 (v) A retrospective test of the accuracy of past rate level
18 indications over at least a ten-year period;

19 (vi) An assessment of the actuarial reserving calculations;

20 (vii) An assessment of the financial impact of the proposed rate
21 level on the actuarial soundness of the industrial insurance fund,
22 taking into consideration the risks inherent with insurance and the
23 fact that competition does not mitigate rate setting.

24 (d) The department of labor and industries shall cooperate with the
25 firms in all respects and shall permit the firms full access to all
26 information the firms deem necessary for a true and complete review.

27 (e) The cost of the audit shall be paid by the state fund.

28 (3) The auditor shall issue an annual report to the governor, the
29 leaders of the majority and minority caucuses in the senate and the
30 house of representatives, the director of the office of financial
31 management, and the director of the department of labor and industries
32 on the results of the financial audit and review, within six months of
33 the end of the fiscal year. The report may include recommendations.

34 (4) The auditor shall issue an annual report to the governor, the
35 leaders of the majority and minority caucuses in the senate and the
36 house of representatives, the director of the office of financial
37 management, and the director of the department of labor and industries

1 on the results of the actuarial audit and review, within four weeks of
2 the initial filing of annual changes to the rates, but no later than
3 two months before the effective date of the rates.

4 (5) The audit and the report of the review performed by the
5 independent accounting and actuarial firms shall be available for
6 public inspection.

7 (6) Not later than ninety days after the auditor completes and
8 delivers to the appropriate authority an audit under subsection (2) of
9 this section, the director of the department of labor and industries
10 shall notify the auditor in writing of the measures taken and proposed
11 to be taken, if any, to respond to the recommendations of the audit
12 report. The auditor may extend the ninety-day period for good cause.

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