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**Commerce & Labor Committee**

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**HB 1856**

**Brief Description:** Requiring industrial insurance fund audits.

**Sponsors:** Representatives Conway, Condotta, Wood, McCoy, Kessler, Campbell and Chase.

**Brief Summary of Bill**

- Requires the Department of Labor and Industries to prepare financial statements on the industrial insurance funds using generally accepted accounting principles.
- Requires the State Auditor to conduct annual audits of the state fund with regard to specified issues and make a report to the Governor, the Legislature, the Office of Financial Management, and the Director of the Department of Labor and Industries (Director).
- Requires the Director to respond to the State Auditor report within 90 days.

**Hearing Date:** 2/14/05

**Staff:** Chris Cordes (786-7103).

**Background:**

The Department of Labor and Industries (Department) administers the Washington industrial insurance system. The Department's responsibilities include operating the state fund from which employers who are not self-insured purchase industrial insurance coverage.

The industrial insurance trust fund administered by the Department includes three basic funds: the accident fund, the medical aid fund, and the supplemental pension fund. The *accident fund* is used to pay time-loss benefits, permanent partial disability awards, and pensions. The *medical aid fund* is used to pay medical and vocational rehabilitation benefits. The *supplemental pension fund* is used to pay cost-of-living adjustments to workers receiving time-loss or pension payments.

All state fund employers pay premiums to the Department for these three funds. These employers deduct one-half of the premium for the medical aid fund and the supplemental pension fund from their employees' wages.

The State Auditor is required to audit state agencies at intervals determined by the State Auditor. Audits of financial statements must include determinations regarding the validity and accuracy of

accounting methods and standards used in the statement's preparation, as well as the accuracy of the statement.

**Summary of Bill:**

The Department of Labor and Industries (Department) is required to prepare financial statements on the various industrial insurance funds using generally accepted accounting principles (GAAP).

Beginning in 2006, the State Auditor must conduct annual audits of the state fund, which must be coordinated with other Department audits that the State Auditor conducts. As part of the audit, the State Auditor may contract with firms qualified to perform a financial audit. The firms doing reviews must be familiar with accounting standards applicable to these accounts and have experience in workers' compensation reserving, discounting, and ratemaking.

The financial audit must include at least an opinion on whether the financial statements were prepared in accordance with GAAP. It must also include an assessment of the financial impact of proposed rates on the funds' actuarial solvency, taking into consideration various factors, including insurance risks, actuarial assumptions, discount rates, reserving, retrospective rating programs, refunds, individual employer rate classes, as well as standard accounting principles used for insurance underwriting.

The State Auditor must issue an annual report on the results of the audits and reviews within six months of the end of the fiscal year. The report is made to the Governor, majority and minority caucus leadership in both chambers of the legislature, the Office of Financial Management, and the Department. The Department, within 90 days of delivery of the report, must notify the State Auditor about measures it has taken in response to the report, if any.

**Rules Authority:** The bill does not contain provisions addressing the rule-making powers of an agency.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.