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HOUSE BILL 1856

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State of Washington

59th Legislature

2005 Regular Session

By Representatives Conway, Condotta, Wood, McCoy, Kessler, Campbell and Chase

Read first time 02/08/2005. Referred to Committee on Commerce & Labor.

1 AN ACT Relating to industrial insurance fund audits; amending RCW  
2 43.09.310; and adding a 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. Statements shall be presented  
11 desegregated and in aggregate.

12 (2) Beginning in 2006, and, to avoid duplication, coordinated with  
13 any audit that may be conducted under RCW 43.09.310, the state auditor  
14 shall conduct annual audits of the state fund. As part of the audits  
15 required under this section, the auditor may contract with firms  
16 qualified to perform all or part of the financial audit, as necessary.

17 (a) The firm or firms conducting the reviews shall be familiar with  
18 the accounting standards applicable to the accounts under review and

1 shall have experience in workers' compensation reserving, discounting,  
2 and rate making.

3 (b) The scope of the financial audit shall include, but is not  
4 limited to:

5 (i) An opinion on whether the financial statements were prepared in  
6 accordance with generally accepted accounting principles; and

7 (ii) An assessment of the financial impact of the proposed rate  
8 level on the actuarial solvency of the accident, medical aid, and  
9 pension reserve funds, taking into consideration the risks inherent  
10 with insurance and the effects of the actuarial assumptions, discount  
11 rates, reserving, retrospective rating program, refunds, and individual  
12 employer rate classes, as well as the standard accounting principles  
13 used for insurance underwriting purposes.

14 (c) The department of labor and industries shall cooperate with the  
15 auditor in all respects and shall permit the auditor full access to all  
16 information deemed necessary for a true and complete review.

17 (d) The cost of the audit shall be paid by the state fund under  
18 separate contract.

19 (3) The auditor shall issue an annual report to the governor, the  
20 leaders of the majority and minority caucuses in the senate and the  
21 house of representatives, the director of the office of financial  
22 management, and the director of the department of labor and industries  
23 on the results of the financial audit and reviews, within six months of  
24 the end of the fiscal year. The report may include recommendations.

25 (4) The audit report shall be available for public inspection.

26 (5) Within ninety days after the auditor completes and delivers to  
27 the appropriate authority an audit under subsection (2) of this  
28 section, the director of the department of labor and industries shall  
29 notify the auditor in writing of the measures taken and proposed to be  
30 taken, if any, to respond to the recommendations of the audit report.  
31 The auditor may extend the ninety-day period for good cause.

32 **Sec. 2.** RCW 43.09.310 and 1996 c 288 s 35 are each amended to read  
33 as follows:

34 (1) Except as provided in subsection (2) of this section, the state  
35 auditor shall annually audit the statewide combined financial  
36 statements prepared by the office of financial management and make  
37 post-audits of state agencies. Post-audits of state agencies shall be

1 made at such periodic intervals as is determined by the state auditor.  
2 Audits of combined financial statements shall include determinations as  
3 to the validity and accuracy of accounting methods, procedures and  
4 standards utilized in their preparation, as well as the accuracy of the  
5 financial statements themselves. A report shall be made of each such  
6 audit and post-audit upon completion thereof, and one copy shall be  
7 transmitted to the governor, one to the director of financial  
8 management, one to the state agency audited, one to the joint  
9 legislative audit and review committee, one each to the standing  
10 committees on ways and means of the house and senate, one to the chief  
11 clerk of the house, one to the secretary of the senate, and at least  
12 one shall be kept on file in the office of the state auditor. A copy  
13 of any report containing findings of noncompliance with state law shall  
14 be transmitted to the attorney general.

15 (2) Audits of the department of labor and industries must be  
16 coordinated with the audits required under section 1 of this act to  
17 avoid duplication of audits.

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