

# SENATE BILL REPORT

## ESHB 2148

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As of March 9, 2016

**Title:** An act relating to the state auditor including allowing for audits to be conducted by a private entity and establishing an appeal process.

**Brief Description:** Concerning the state auditor including allowing for audits to be conducted by a private entity.

**Sponsors:** House Committee on General Government & Information Technology (originally sponsored by Representatives Chandler, Pike and Hudgins).

**Brief History:** Passed House: 2/16/16, 95-2.

**Committee Activity:** Accountability & Reform: 2/24/16.

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### SENATE COMMITTEE ON ACCOUNTABILITY & REFORM

**Staff:** Karen Barrett (786-7413)

**Background:** The State Auditor holds the constitutionally vested power to examine the books of any person charged with the receipt, safekeeping, and disbursement of public monies. The State Auditor is presently authorized to contract with certified public accountants who may perform financial audits or attestation engagements on a case-by-case basis for state agencies and local governments as determined by the State Auditor. The State Auditor delegates but will examine any externally prepared report to render the official opinion, by law.

**Summary of Bill:** Local governments are authorized to request a private financial audit be performed by a certified public accounting firm in lieu of work executed by employees of the State Auditor with the condition that the State Auditor performs the work at least one time every fourth financial audit. The bill adds a statutory requirement that State Auditor discuss and reconcile findings with local entities being audited. A wait period of sixty days is specified before publishing the official opinion.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

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

**Staff Summary of Public Testimony:** PRO: Dissatisfaction was expressed over the engagement as practiced by school district auditors with respect to cost, cycle time, communication and opportunity to rebut findings before opinion is part of the public record. Senate was encouraged revisit and consider granting local governments access to appeal and involve office of administrative hearings as proposed when this bill was first introduced. Fire districts would like flexibility to consider pro-bono services of a certified public accountant. Uncertainty expressed over new language that would require SAO employees perform this work once every fourth audit; some who testified suggested that could be counter-productive if a private firm was used intentionally; the State Auditor would have to contract out the fourth or find expertise within its own ranks which goes against reasons for employing a specialist.

CON: The bill is not necessary as local governments can request involvement of certified public accountants today. The State Auditor's track record suggests only one request has ever been denied and once, a private CPA firm was referred to the State Board of Accountancy. The local government services division is working to improve the communication between field teams and clients; the State Auditor appreciates concerns raised one year ago and has taken the feedback and acted upon it. The State Auditor experiences 19 percent turnover which is on par with national peers and CPA firms, generally. The State Auditor's Office feeds the professional career path of many accountants that local governments hire away. The SAO is working to educate and make resolution steps more transparent. The State Auditor executes thousands of federal single audits that do involve school districts and there are perennial challenges starting and concluding these audits in the short window, available. The SAO expressed concern that the sixty day wait period before issuance could (therefore) be problematic.

OTHER: Constitutionally, Washington citizens are the true customer for these audits and founding principle of statehood is that public monies be examined by the State Auditor's Office. Certified public accountants must follow auditing practice standards when reviewing the books of a government organization. Firms have a duty to assign competent, independent personnel and would have to demonstrate that, without question, for licensure reviews and to attest to its work for the State Auditor.

**Persons Testifying:** PRO: Bill Adamo, Riverview Schools; Ryan Spiller, Washington Fire Commissioners Association; Ginger Eagle, Washington Public Ports Association; Kelly Roberts, private citizen; David Ridenour, Town of Yacolt.

CON: Sheri Sawyer, Doug Cochran, Kelly Collins, Barb Hinton, State Auditor's Office; Shaun Seaman, Chelan County Public Utility District.

OTHER: Rich Jones, Lisa Thatcher, Washington Society of Certified Public Accountants; Rowland Thompson, Allied Daily Newspapers of Washington.