

HOUSE BILL REPORT

HB 1121

As Reported By House Committee On:
Government Operations

Title: An act relating to performance audits conducted by the state auditor.

Brief Description: Requiring a performance audit for state agencies.

Sponsors: Representatives Backlund, Chappell, Sheldon, Campbell, Sherstad, Hickel, McMorris, Mielke, D. Schmidt, Schoesler, Elliot, Robertson, Goldsmith, Honeyford, L. Thomas, Basich, Hymes, Huff, Lambert, Crouse, Ballasiotes, Smith, McMahan, Boldt, Buck, Thompson, Koster, Mitchell, Kremen and Benton.

Brief History:

Committee Activity:

Government Operations: 1/24/95, 2/22/95 [DPS].

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Reams, Chairman; Goldsmith, Vice Chairman; L. Thomas, Vice Chairman; Scott, Assistant Ranking Minority Member; Hargrove; Honeyford; Hymes; Mulliken; D. Schmidt; Sommers; Van Luven and Wolfe.

Minority Report: Without recommendation. Signed by 3 members: Representatives Rust, Ranking Minority Member; Chopp and R. Fisher.

Staff: Bill Lynch (786-7092).

Background: Role of the State Auditor in Conducting Audits

The Division of Departmental Audits within the Office of the State Auditor annually audits the state-wide combined financial statements prepared by the Office of Financial Management.

The Division of Departmental Audits also prepares post-audits of the financial transactions of state agencies at such periodic intervals as the State Auditor determines. The State Auditor is limited to reporting whether agencies complied with

the laws of the state in making expenditures, unless expressly authorized in the operating budget to perform or participate in performance verifications.

A "performance verification" is defined as an analysis that verifies the accuracy of data used by agencies in quantifying intended results and measuring performance towards those results, and verifies whether or not the reported results were achieved.

The State Auditor, upon the completion of an audit or a performance verification, may report to the Legislative Budget Committee (LBC) or other committees of the Legislature on facts relating to the management or performance of governmental programs where such facts are discovered incidental to the legal and financial audit or performance verification.

The auditor must make these reports to the Legislature in a manner prescribed by LBC, and is prohibited from making a report to the Legislature unless the auditor has determined that the agency has been given an opportunity and has failed to resolve the issues raised by the auditor. The auditor is expressly forbidden to allocate other than de minimis resources to performance audits except as expressly authorized by the operating budget.

Role of the Legislative Budget Committee in Conducting Audits

The Legislative Budget Committee (LBC) consists of eight Senators and eight Representatives from the House. The LBC is authorized to conduct management surveys and program evaluations of state agencies. The LBC is also required to review all post-audit reports of state agencies made by the State Auditor, and make recommendations to the Legislature and the State Auditor as it deems appropriate.

The LBC's authority to conduct management surveys includes the authority to conduct comprehensive performance audits to ensure that agency programs are being conducted in accordance with legislative intent and program goals and objectives. The purpose of the management surveys is to provide the Legislature with an independent examination of the manner in which an agency, officer, or employee has discharged the responsibility to faithfully, efficiently, and effectively administer the prescribed legislative purpose.

The state program reviews conducted by LBC are an examination of state programs to determine whether or not the programs continue to serve their intended purposes, are conducted in an efficient and effective manner, or require modification or elimination. The LBC may establish a biennial workplan for identifying state agency programs for which formal evaluation appears necessary. The plan may include proposals to employ contract evaluators.

Summary of Substitute Bill: The State Auditor is required to undertake a comprehensive performance audit of programs, services, and activities conducted by the Division of Vocational Rehabilitation within the Department of Social and Health Services, the Department of Community, Trade, and Economic Development, and the Superintendent of Public Instruction.

The auditor must present an audit work plan to the Legislative Budget Committee within 60 days of the effective date of the act. The auditor must submit the audit report within one year from the effective date of the legislation.

The audit must include:

- (1) An evaluation of the efficiency with which agencies operate their programs and fulfill their assigned duties;
- (2) A determination of methods to maximize the amount of federal funds received by the state;
- (3) Identification of potential cost savings and of any agency, program, or service that can be eliminated or transferred to the private sector without causing injury to the public good;
- (4) Recommendations for the elimination of or reduction in funding to various agencies, programs, or services based upon the audit results; and
- (5) An analysis of gaps and overlays in programs offered by state agencies and recommendations for correcting these gaps and overlays.

The auditor provides the necessary staff for the audit. The auditor must involve private sector professionals and other experts in conducting the audit, and may contract with them for conducting the audit.

The auditor may require any state agency to provide information to complete the audit. The auditor must solicit suggestions for improving government performance from both public employees and recipients of the government services as part of the audit. The auditor must also establish a toll-free telephone number for the public to report government waste and make suggestions.

The auditor may only perform or participate in performance audits as expressly authorized by the Legislature. Performance audits are for the purpose of determining: (1) whether a government entity is acquiring, protecting, and using its resources economically and efficiently in accordance with all significant laws and rules; (2) the cause of inefficiencies or uneconomical practices; (3) the extent to which the desired results or benefits established by the Legislature are being achieved; (4) the causes for

not allowing intended outcomes or results; and (5) compliance with significant laws and rules applicable to the program.

The auditor must give a state agency 30 days to respond to the audit findings. The response by the state agency becomes part of the final audit report. Before releasing a performance audit, the auditor must submit it to the Legislative Budget Committee and the Performance Partnership Operating Committee for their recommendations and comments.

Estimates for budget proposals submitted to the Governor must include consideration of recommendations made by the State Auditor pursuant to a performance audit.

Substitute Bill Compared to Original Bill: The number of performance audits that the State Auditor may conduct is reduced to three. Legislative authorization is required before the auditor may conduct future performance audits. Procedures are established for release of performance audits.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect immediately.

Testimony For: People are concerned about government waste. It's appropriate for the State Auditor to conduct performance audits. Some states have saved considerable money through performance audits.

Testimony Against: The Legislative Budget Committee is already trained to do performance audits. The personnel in the State Auditor's Office are not trained to do performance audits.

Testified: Representative Backlund, prime sponsor; Representative Silver; Cheryl Broom, Legislative Budget Committee; Brian Sonntag and Linda Sheler, State Auditor's Office; and Meta Heller, citizen.