
SUBSTITUTE HOUSE BILL 1121

State of Washington

54th Legislature

1995 Regular Session

By House Committee on Government Operations (originally sponsored by 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)

Read first time 02/24/95.

1 AN ACT Relating to performance audits conducted by the state
2 auditor; amending RCW 43.88.160 and 43.88.090; creating new sections;
3 and declaring an emergency.

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

5 NEW SECTION. **Sec. 1.** The legislature seeks to achieve efficiency
6 and effectiveness in state government in order to make the state of
7 Washington the most effective and best-performing state government in
8 the United States, measured in terms of quality of customer service,
9 accountability for cost-effective services, and productivity. This act
10 is an initial step toward this goal.

11 NEW SECTION. **Sec. 2.** (1) The state auditor shall undertake
12 comprehensive performance audits of rehabilitation and job support
13 services provided by the department of social and health services
14 pursuant to chapter 74.29 RCW and programs, services, and activities
15 operated by the superintendent of public instruction and the department
16 of community, trade, and economic development.

17 (2) In addition to the criteria for performance audits set forth in
18 RCW 43.88.160, the audits must include:

1 (a) A determination of methods to maximize the amount of federal
2 funds received by the state in order to better ensure that the people
3 of Washington receive a greater share of the taxes levied on them by
4 the federal government;

5 (b) Identification of potential cost savings and of any state
6 program or service now offered by an agency that can be eliminated or
7 transferred to the private sector without injury to the public good and
8 well-being;

9 (c) Recommendations for the elimination of or reduction in funding
10 to various agencies, programs, or services based on the results of the
11 performance audits; and

12 (d) Analysis of gaps and overlaps in programs offered by state
13 agencies and recommendations for improving, dropping, blending, or
14 separating functions to correct gaps or overlaps.

15 (3) The state auditor may require any state agency to provide
16 information required for completion of the audits, and each state
17 agency shall fully and completely cooperate with the state auditor for
18 the purposes of this section.

19 (4) The office of the state auditor shall provide the staff
20 necessary for the audits. The state auditor shall involve private-
21 sector professional and technical experts in conducting the audits, and
22 may contract with private-sector professionals and other experts for
23 that purpose.

24 (5) The state auditor shall solicit suggestions for improving
25 government performance from both front-line public employees and
26 government service recipients in the conduct of the audits. The state
27 auditor shall establish a toll-free telephone number at which the
28 public may make suggestions and report government waste, in order to
29 aid the identification of both waste and innovation.

30 (6) The state auditor shall present an audit work plan to the
31 legislative budget committee within sixty days of the effective date of
32 this act. The state auditor shall present the audit reports to the
33 legislature, the governor, and citizens by one year from the effective
34 date of this act.

35 **Sec. 3.** RCW 43.88.160 and 1994 c 184 s 11 are each amended to read
36 as follows:

37 This section sets forth the major fiscal duties and
38 responsibilities of officers and agencies of the executive branch. The

1 regulations issued by the governor pursuant to this chapter shall
2 provide for a comprehensive, orderly basis for fiscal management and
3 control, including efficient accounting and reporting therefor, for the
4 executive branch of the state government and may include, in addition,
5 such requirements as will generally promote more efficient public
6 management in the state.

7 (1) Governor; director of financial management. The governor,
8 through the director of financial management, shall devise and
9 supervise a modern and complete accounting system for each agency to
10 the end that all revenues, expenditures, receipts, disbursements,
11 resources, and obligations of the state shall be properly and
12 systematically accounted for. The accounting system shall include the
13 development of accurate, timely records and reports of all financial
14 affairs of the state. The system shall also provide for central
15 accounts in the office of financial management at the level of detail
16 deemed necessary by the director to perform central financial
17 management. The director of financial management shall adopt and
18 periodically update an accounting procedures manual. Any agency
19 maintaining its own accounting and reporting system shall comply with
20 the updated accounting procedures manual and the rules of the director
21 adopted under this chapter. An agency may receive a waiver from
22 complying with this requirement if the waiver is approved by the
23 director. Waivers expire at the end of the fiscal biennium for which
24 they are granted. The director shall forward notice of waivers granted
25 to the appropriate legislative fiscal committees. The director of
26 financial management may require such financial, statistical, and other
27 reports as the director deems necessary from all agencies covering any
28 period.

29 (2) The director of financial management is responsible for
30 quarterly reporting of primary operating budget drivers such as
31 applicable workloads, caseload estimates, and appropriate unit cost
32 data. These reports shall be transmitted to the legislative fiscal
33 committees or by electronic means to the legislative evaluation and
34 accountability program committee. Quarterly reports shall include
35 actual monthly data and the variance between actual and estimated data
36 to date. The reports shall also include estimates of these items for
37 the remainder of the budget period.

38 (3) The director of financial management shall report at least
39 annually to the appropriate legislative committees regarding the status

1 of all appropriated capital projects, including transportation
2 projects, showing significant cost overruns or underruns. If funds are
3 shifted from one project to another, the office of financial management
4 shall also reflect this in the annual variance report. Once a project
5 is complete, the report shall provide a final summary showing estimated
6 start and completion dates of each project phase compared to actual
7 dates, estimated costs of each project phase compared to actual costs,
8 and whether or not there are any outstanding liabilities or unsettled
9 claims at the time of completion.

10 (4) In addition, the director of financial management, as agent of
11 the governor, shall:

12 (a) Develop and maintain a system of internal controls and internal
13 audits comprising methods and procedures to be adopted by each agency
14 that will safeguard its assets, check the accuracy and reliability of
15 its accounting data, promote operational efficiency, and encourage
16 adherence to prescribed managerial policies for accounting and
17 financial controls. The system developed by the director shall include
18 criteria for determining the scope and comprehensiveness of internal
19 controls required by classes of agencies, depending on the level of
20 resources at risk.

21 Each agency head or authorized designee shall be assigned the
22 responsibility and authority for establishing and maintaining internal
23 audits following the standards of internal auditing of the institute of
24 internal auditors;

25 (b) Make surveys and analyses of agencies with the object of
26 determining better methods and increased effectiveness in the use of
27 manpower and materials; and the director shall authorize expenditures
28 for employee training to the end that the state may benefit from
29 training facilities made available to state employees;

30 (c) Establish policies for allowing the contracting of child care
31 services;

32 (d) Report to the governor with regard to duplication of effort or
33 lack of coordination among agencies;

34 (e) Review any pay and classification plans, and changes
35 thereunder, developed by any agency for their fiscal impact: PROVIDED,
36 That none of the provisions of this subsection shall affect merit
37 systems of personnel management now existing or hereafter established
38 by statute relating to the fixing of qualifications requirements for
39 recruitment, appointment, or promotion of employees of any agency. The

1 director shall advise and confer with agencies including appropriate
2 standing committees of the legislature as may be designated by the
3 speaker of the house and the president of the senate regarding the
4 fiscal impact of such plans and may amend or alter ~~((said))~~ the plans,
5 except that for ~~((the following))~~ agencies headed by elected officials
6 no amendment or alteration of ~~((said))~~ the plans may be made without
7 the approval of the agency concerned(~~(: Agencies headed by elective~~
8 ~~officials))~~);

9 (f) Fix the number and classes of positions or authorized man years
10 of employment for each agency and during the fiscal period amend the
11 determinations previously fixed by the director except that the
12 director shall not be empowered to fix ~~((said))~~ the number or ~~((said))~~
13 the classes for ~~((the following:))~~ agencies headed by ((elective))
14 elected officials;

15 (g) Provide for transfers and repayments between the budget
16 stabilization account and the general fund as directed by appropriation
17 ~~((and RCW 43.88.525 through 43.88.540))~~);

18 (h) Adopt rules to effectuate provisions contained in (a) through
19 (g) of this subsection.

20 (5) The treasurer shall:

21 (a) Receive, keep, and disburse all public funds of the state not
22 expressly required by law to be received, kept, and disbursed by some
23 other persons: PROVIDED, That this subsection shall not apply to those
24 public funds of the institutions of higher learning which are not
25 subject to appropriation;

26 (b) Receive, disburse, or transfer public funds under the
27 treasurer's supervision or custody;

28 (c) Keep a correct and current account of all moneys received and
29 disbursed by the treasurer, classified by fund or account;

30 (d) Coordinate agencies' acceptance and use of credit cards and
31 other payment methods, if the agencies have received authorization
32 under RCW 43.41.180;

33 (e) Perform such other duties as may be required by law or by
34 regulations issued pursuant to this law.

35 It shall be unlawful for the treasurer to disburse public funds in
36 the treasury except upon forms or by alternative means duly prescribed
37 by the director of financial management. These forms or alternative
38 means shall provide for authentication and certification by the agency
39 head or the agency head's designee that the services have been rendered

1 or the materials have been furnished; or, in the case of loans or
2 grants, that the loans or grants are authorized by law; or, in the case
3 of payments for periodic maintenance services to be performed on state
4 owned equipment, that a written contract for such periodic maintenance
5 services is currently in effect and copies thereof are on file with the
6 office of financial management; and the treasurer shall not be liable
7 under the treasurer's surety bond for erroneous or improper payments so
8 made. When services are lawfully paid for in advance of full
9 performance by any private individual or business entity other than as
10 provided for by RCW 42.24.035, such individual or entity other than
11 central stores rendering such services shall make a cash deposit or
12 furnish surety bond coverage to the state as shall be fixed in an
13 amount by law, or if not fixed by law, then in such amounts as shall be
14 fixed by the director of the department of general administration but
15 in no case shall such required cash deposit or surety bond be less than
16 an amount which will fully indemnify the state against any and all
17 losses on account of breach of promise to fully perform such services.
18 No payments shall be made in advance for any equipment maintenance
19 services to be performed more than three months after such payment.
20 Any such bond so furnished shall be conditioned that the person, firm
21 or corporation receiving the advance payment will apply it toward
22 performance of the contract. The responsibility for recovery of
23 erroneous or improper payments made under this section shall lie with
24 the agency head or the agency head's designee in accordance with
25 regulations issued pursuant to this chapter. Nothing in this section
26 shall be construed to permit a public body to advance funds to a
27 private service provider pursuant to a grant or loan before services
28 have been rendered or material furnished.

29 (6) The state auditor shall:

30 (a) Report to the legislature the results of current post audits
31 that have been made of the financial transactions of each agency; to
32 this end the auditor may, in the auditor's discretion, examine the
33 books and accounts of any agency, official or employee charged with the
34 receipt, custody or safekeeping of public funds. Where feasible in
35 conducting examinations, the auditor shall utilize data and findings
36 from the internal control system prescribed by the office of financial
37 management. The current post audit of each agency may include a
38 section on recommendations to the legislature as provided in (c) of
39 this subsection.

1 (b) Give information to the legislature, whenever required, upon
2 any subject relating to the financial affairs of the state.

3 (c) Make the auditor's official report on or before the thirty-
4 first of December which precedes the meeting of the legislature. The
5 report shall be for the last complete fiscal period and shall include
6 determinations as to whether agencies, in making expenditures, complied
7 with the laws of this state. The state auditor is authorized to
8 perform or participate in performance (~~verifications only as expressly~~
9 ~~authorized by the legislature in the omnibus biennial appropriations~~
10 ~~acts~~) audits only as expressly authorized by the legislature. A
11 performance audit for the purpose of this section is an audit that
12 determines the following: Whether a government entity is acquiring,
13 protecting, and using its resources economically and efficiently in
14 accordance with all significant laws and rules; the causes of
15 inefficiencies or uneconomical practices; the extent to which the
16 desired outcomes or results intended by the legislature are being
17 achieved; the causes for not achieving intended outcomes or results;
18 and compliance with significant laws and rules applicable to the
19 program. The state auditor, upon completing an audit for legal and
20 financial compliance under chapter 43.09 RCW (~~or a performance~~
21 ~~verification~~), may report to the legislative budget committee or other
22 appropriate committees of the legislature, in a manner prescribed by
23 the legislative budget committee, on facts relating to the management
24 or performance of governmental programs where such facts are discovered
25 incidental to the legal and financial audit (~~or performance~~
26 ~~verification~~). The auditor may make such a report to a legislative
27 committee only if the auditor has determined that the agency has been
28 given an opportunity and has failed to resolve the management or
29 performance issues raised by the auditor. If the auditor makes a
30 report to a legislative committee, the agency may submit to the
31 committee a response to the report. (~~This subsection (6) shall not be~~
32 ~~construed to authorize the auditor to allocate other than de minimis~~
33 ~~resources to performance audits except as expressly authorized in the~~
34 ~~appropriations acts.~~) When the state auditor has completed a
35 performance audit authorized by the legislature, the auditor shall
36 transmit the audit to the state agency for its comments. The state
37 agency shall provide any response to the state auditor within thirty
38 days after receipt of the performance audit. The response of the state
39 agency shall be incorporated into the final performance audit report.

1 Before releasing the results of any performance audit to the
2 legislature or general public, the state auditor shall submit the
3 performance audit to the legislative budget committee and the
4 performance partnership operating committee established in chapter
5 43.88B RCW for their recommendations and comments.

6 (d) Be empowered to take exception to specific expenditures that
7 have been incurred by any agency or to take exception to other
8 practices related in any way to the agency's financial transactions and
9 to cause such exceptions to be made a matter of public record,
10 including disclosure to the agency concerned and to the director of
11 financial management. It shall be the duty of the director of
12 financial management to cause corrective action to be taken promptly,
13 such action to include, as appropriate, the withholding of funds as
14 provided in RCW 43.88.110.

15 (e) Promptly report any irregularities to the attorney general.

16 (f) Investigate improper governmental activity under chapter 42.40
17 RCW.

18 (7) The legislative budget committee may:

19 (a) Make post audits of the financial transactions of any agency
20 and management surveys and program reviews as provided for in RCW
21 44.28.085 as well as performance audits and program evaluations. To
22 this end the committee may in its discretion examine the books,
23 accounts, and other records of any agency, official, or employee.

24 (b) Give information to the legislature or any legislative
25 committee whenever required upon any subject relating to the
26 performance and management of state agencies.

27 (c) Make a report to the legislature which shall include at least
28 the following:

29 (i) Determinations as to the extent to which agencies in making
30 expenditures have complied with the will of the legislature and in this
31 connection, may take exception to specific expenditures or financial
32 practices of any agencies; and

33 (ii) Such plans as it deems expedient for the support of the
34 state's credit, for lessening expenditures, for promoting frugality and
35 economy in agency affairs and generally for an improved level of fiscal
36 management.

37 **Sec. 4.** RCW 43.88.090 and 1994 c 184 s 10 are each amended to read
38 as follows:

1 (1) For purposes of developing budget proposals to the legislature,
2 the governor shall have the power, and it shall be the governor's duty,
3 to require from proper agency officials such detailed estimates and
4 other information in such form and at such times as the governor shall
5 direct. The estimates for the legislature and the judiciary shall be
6 transmitted to the governor and shall be included in the budget without
7 revision. The estimates for state pension contributions shall be based
8 on the rates provided in chapter 41.45 RCW. Copies of all such
9 estimates shall be transmitted to the standing committees on ways and
10 means of the house and senate at the same time as they are filed with
11 the governor and the office of financial management.

12 The estimates shall include statements or tables which indicate, by
13 agency, the state funds which are required for the receipt of federal
14 matching revenues. The estimates shall be revised as necessary to
15 reflect legislative enactments and adopted appropriations and shall be
16 included with the initial biennial allotment submitted under RCW
17 43.88.110. The estimates shall include consideration of
18 recommendations made by the state auditor pursuant to a performance
19 audit of the agency.

20 (2) In the year of the gubernatorial election, the governor shall
21 invite the governor-elect or the governor-elect's designee to attend
22 all hearings provided in RCW 43.88.100; and the governor shall furnish
23 the governor-elect or the governor-elect's designee with such
24 information as will enable the governor-elect or the governor-elect's
25 designee to gain an understanding of the state's budget requirements.
26 The governor-elect or the governor-elect's designee may ask such
27 questions during the hearings and require such information as the
28 governor-elect or the governor-elect's designee deems necessary and may
29 make recommendations in connection with any item of the budget which,
30 with the governor-elect's reasons therefor, shall be presented to the
31 legislature in writing with the budget document. Copies of all such
32 estimates and other required information shall also be submitted to the
33 standing committees on ways and means of the house and senate.

34 NEW SECTION. **Sec. 5.** This act is necessary for the immediate
35 preservation of the public peace, health, or safety, or support of the

1 state government and its existing public institutions, and shall take
2 effect immediately.

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