

# SENATE BILL REPORT

## E2SHB 2881

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As Reported By Senate Committee On:  
Government Operations, February 23, 1998  
Ways & Means, March 2, 1998

**Title:** An act relating to audits of state contractors by the state auditor.

**Brief Description:** Auditing state contractors.

**Sponsors:** House Committee on Appropriations (originally sponsored by Representatives Clements, Dickerson, Parlette, Gombosky, Backlund, Gardner, Delvin, O'Brien and Lambert).

**Brief History:**

**Committee Activity:** Government Operations: 2/23/98 [DPA-WM].  
Ways & Means: 2/27/98, 3/2/98 [DPA (GO), DNP].

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### SENATE COMMITTEE ON GOVERNMENT OPERATIONS

**Majority Report:** Do pass as amended and be referred to Committee on Ways & Means.  
Signed by Senators McCaslin, Chair; Haugen, Horn, Patterson and T. Sheldon.

**Staff:** Diane Smith (786-7410)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass as amended by Committee on Government Operations.  
Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Hochstatter, Long, McDonald, Rossi, Schow, Swecker, Winsley and Zarelli.

**Minority Report:** Do not pass.  
Signed by Senators Loveland, B. Sheldon and Thibaudeau.

**Staff:** Steve Jones (786-7440)

**Background:** The Office of the State Auditor currently is required by RCW 43.88.570 to oversee random audits of nongovernmental entities that receive over \$300,000 worth of state moneys in the preceding fiscal year in exchange for the provision of social services. State agencies are required to prepare lists of nongovernmental entities that meet the audit criteria, and report the lists to the Office of the State Auditor. The State Auditor is required to generate two groups of nongovernmental entities that will be audited: (1) a randomly selected group that is statistically representative of the total number of nongovernmental entities reported by the state agencies; and (2) a second group that is chosen according to listed risk-assessment factors. Most required audits are performed by private CPAs, according to standards established by the state auditor.

**Summary of Amended Bill:** RCW 43.88.570 is amended with regard to annual audits of nongovernmental entities. A licensed CPA performs the audit for the first group of randomly selected nongovernmental entities. The second group of entities, selected according to the risk-assessment model, are audited directly by the Auditor. In creating this second group, the State Auditor is required to consider findings of audits from other nongovernmental entities who provide services under the same state or federal program. The Auditor is required to review the results of the audits from the risk-assessment group to determine if there is evidence of misuse of public moneys.

The State Auditor is given the ability to investigate vendors who provide services to state agencies or their clients, including nonprofits. The ability is discretionary, where there is "reasonable cause to believe that a misuse of state moneys has occurred." The State Auditor may perform an audit according to an agreed upon procedures engagement consistent with the standards of the American Institute of Certified Public Accountants. The State Auditor may charge the contracting agency for the cost of auditing a not-for-profit corporation. The contracting agency must then use due diligence in recovering that cost from the audited entity.

When the State Auditor finds that there is reasonable cause to believe that there has been a criminal misuse of state moneys, the State Auditor must so report to the appropriate prosecuting attorney.

The bill is null and void unless funded in the budget.

**Amended Bill Compared to Second Substitute Bill:** The amended bill does not declare an emergency.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** This bill is the result of a two-year study by a select committee of the House of Representatives. It will provide for greater efficiency and accountability in state contracts. The State Auditor needs more explicit authority to perform financial audits on nonprofit organizations receiving state funds.

**Testimony Against:** None.

**Testified:** PRO: Rep. Clements, prime sponsor; Linda Long, Deputy State Auditor; Margaret Casey, Washington State Catholic Conference.