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**SUBSTITUTE HOUSE BILL 2881**

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**State of Washington**

**55th Legislature**

**1998 Regular Session**

**By** House Committee on Select Vendor Committee (originally sponsored by Representatives Clements, Dickerson, Parlette, Gombosky, Backlund, Gardner, Delvin, O'Brien and Lambert)

Read first time 02/03/98. Referred to Committee on .

1 AN ACT Relating to audits of state contractors by the state  
2 auditor; amending RCW 43.88.570; adding new sections to chapter 43.09  
3 RCW; creating a new section; making an appropriation; and declaring an  
4 emergency.

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

6 NEW SECTION. **Sec. 1.** The legislature finds that the state auditor  
7 lacks the needed authority to investigate the finances of state  
8 nongovernmental contractors. The legislature further finds that  
9 current contract oversight and management procedures cannot ensure that  
10 services under contract are delivered effectively and efficiently.  
11 Therefore, the legislature intends to enhance the authority of the  
12 state auditor to audit entities that provide services to the state or  
13 its clients under contract with state agencies.

14 **Sec. 2.** RCW 43.88.570 and 1997 c 374 s 3 are each amended to read  
15 as follows:

16 (1) Each state agency shall submit a report to the office of the  
17 state auditor listing each nongovernment entity that received over  
18 three hundred thousand dollars in state moneys during the previous

1 fiscal year under contract with the agency for purposes related to the  
2 provision of social services. The report must be submitted by  
3 September 1 each year, and must be in a form prescribed by the office  
4 of the state auditor.

5 (2) The office of the state auditor shall select ~~((two groups of~~  
6 ~~entities from the reports for audit as follows:~~

7 ~~(a) The first group shall be selected))~~ at random a group of  
8 entities from the reports using a procedure prescribed by the office of  
9 the state auditor. The office of the state auditor shall ensure that  
10 the number of entities selected under this subsection (2)~~((a))~~ each  
11 year is sufficient to ensure a statistically representative sample of  
12 all reported entities.

13 ~~((b) The second group shall be selected based on a risk assessment~~  
14 ~~of entities conducted by the office of the state auditor in~~  
15 ~~consultation with state agencies. The office of the state auditor~~  
16 ~~shall consider, at a minimum, the following factors when conducting~~  
17 ~~risk assessments: Findings from previous audits; decentralization of~~  
18 ~~decision making and controls; turnover in officials and key personnel;~~  
19 ~~changes in management structure or operations; and the presence of new~~  
20 ~~programs, technologies, or funding sources.))~~

21 (3) Each entity selected under subsection (2) of this section shall  
22 be required to complete a comprehensive entity-wide audit in accordance  
23 with generally accepted government auditing standards. The audit shall  
24 be completed by, or under the supervision of, a certified public  
25 accountant licensed in this state. The audit shall determine, at a  
26 minimum, whether:

27 (a) The financial statements of the entity are presented fairly in  
28 all material respects in conformity with generally accepted accounting  
29 principles;

30 (b) The schedule of expenditures of state moneys is presented  
31 fairly in all material respects in relation to the financial statements  
32 taken as a whole;

33 (c) Internal accounting controls exist and are effective; and

34 (d) The entity has complied with laws, regulations, and contract  
35 and grant provisions that have a direct and material effect on  
36 performance of the contract and the expenditure of state moneys.

37 (4) The office of the state auditor shall also select a second  
38 group based on a risk assessment of entities conducted by the office of  
39 the state auditor in consultation with state agencies. The office of

1 the state auditor shall consider, at a minimum, the following factors  
2 when conducting risk assessments: Findings from audits of entities  
3 under contract with the state to provide services for the same state or  
4 federal program; findings from previous audits; decentralization of  
5 decision making and controls; turnover in officials and key personnel;  
6 changes in management structure or operations; and the presence of new  
7 programs, technologies, or funding sources.

8 (5) The office of the state auditor is required to complete a  
9 comprehensive entity-wide audit, in accordance with generally accepted  
10 government auditing standards, of each entity selected under subsection  
11 (4) of this section. The office of the state auditor may procure the  
12 services of a certified public accountant to perform such an audit, as  
13 set forth under RCW 43.09.045. The audit shall determine, at a  
14 minimum, whether:

15 (a) The financial statements of the entity are presented fairly in  
16 all material respects in conformity with generally accepted accounting  
17 principles;

18 (b) The schedule of expenditures of state moneys is presented  
19 fairly in all material respects in relation to the financial statements  
20 taken as a whole;

21 (c) Internal accounting controls exist and are effective; and

22 (d) The entity has complied with statutes, rules, regulations, and  
23 contract and grant provisions that have a direct and material effect on  
24 performance of the contract and the expenditure of state moneys.

25 (6) The office of the state auditor shall prescribe policies and  
26 procedures for the conduct of audits under this section. The office of  
27 the state auditor shall deem single audits completed in compliance with  
28 federal requirements to be in fulfillment of the requirements of this  
29 section if the audit meets the requirements of subsection (3)(a)  
30 through (d) or subsection (5)(a) through (d) of this section. If the  
31 entity is selected under subsection (4) of this section, the office of  
32 the state auditor shall review the single audit to determine if there  
33 is evidence of misuse of public moneys.

34 ~~((+5))~~ (7) Completed audits must be delivered to the office of the  
35 state auditor and the state agency by April 1 in the year following the  
36 selection of the entity for audit. Entities must resolve any findings  
37 contained in the audit within six months of the delivery of the audit.  
38 Entities may not enter into new contracts with state agencies until all  
39 major audit findings are resolved.

1       (~~(6)~~) (8) Nothing in this section limits the authority of the  
2 state auditor to carry out statutorily and contractually prescribed  
3 powers and duties.

4       NEW SECTION. **Sec. 3.** A new section is added to chapter 43.09 RCW  
5 to read as follows:

6       The state auditor may, where there is reasonable cause to believe  
7 that a misuse of state moneys has occurred, conduct an audit of  
8 financial and legal compliance of any entity that receives public  
9 moneys through contract or grant in return for services. This  
10 authority includes examinations of not-for-profit corporations who  
11 provide personal services to a state agency or to clients of a state  
12 agency. Such a financial audit shall be performed in a manner  
13 consistent with this chapter.

14       The state auditor may charge the contracting agency, whether state  
15 or local, for the costs of an audit of a not-for-profit corporation  
16 that receives public moneys through contract or grant in return for  
17 services. Any contracting agency that is responsible to the state  
18 auditor for such costs shall use due diligence to recover costs from  
19 the audited entity.

20       NEW SECTION. **Sec. 4.** A new section is added to chapter 43.09 RCW  
21 to read as follows:

22       If after a financial audit of an entity that receives public moneys  
23 under contract or grant in return for services, there is reasonable  
24 cause to believe that a criminal misuse of public moneys has occurred,  
25 the office of the state auditor, within thirty days from receipt of the  
26 report, shall deliver a copy of the report to the appropriate local  
27 prosecuting authority.

28       NEW SECTION. **Sec. 5.** The sum of two hundred thousand dollars, or  
29 as much thereof as may be necessary, is appropriated from the audit  
30 services revolving fund to the office of the state auditor for the  
31 fiscal year ending June 30, 1999. The appropriation in this section is  
32 provided solely for the purposes of section 3 of this act, and any  
33 portion of this amount that is unnecessary to fulfill these purposes  
34 shall lapse.

1        NEW SECTION.    **Sec. 6.**    This act is necessary for the immediate  
2 preservation of the public peace, health, or safety, or support of the  
3 state government and its existing public institutions, and takes effect  
4 immediately.

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