

CERTIFICATION OF ENROLLMENT

ENGROSSED SECOND SUBSTITUTE HOUSE BILL 2881

Chapter 232, Laws of 1998

55th Legislature
1998 Regular Session

AUDITS OF NONGOVERNMENTAL ENTITIES WITH STATE CONTRACTS

EFFECTIVE DATE: 6/11/98

Passed by the House March 10, 1998
Yeas 98 Nays 0

CLYDE BALLARD
**Speaker of the
House of Representatives**

Passed by the Senate March 6, 1998
Yeas 47 Nays 2

BRAD OWEN
President of the Senate

Approved March 30, 1998

GARY LOCKE
Governor of the State of Washington

CERTIFICATE

I, Timothy A. Martin, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **ENGROSSED SECOND SUBSTITUTE HOUSE BILL 2881** as passed by the House of Representatives and the Senate on the dates hereon set forth.

TIMOTHY A. MARTIN
Chief Clerk

FILED

March 30, 1998 - 3:11 p.m.

**Secretary of State
State of Washington**

ENGROSSED SECOND SUBSTITUTE HOUSE BILL 2881

AS AMENDED BY THE SENATE

Passed Legislature - 1998 Regular Session

State of Washington 55th Legislature 1998 Regular Session

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

Read first time 02/07/98. 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; and creating new sections.

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

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

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

15 (1) Each state agency shall submit a report to the office of the
16 state auditor listing each nongovernment entity that received over
17 three hundred thousand dollars in state moneys during the previous
18 fiscal year under contract with the agency for purposes related to the

1 provision of social services. The report must be submitted by
2 September 1 each year, and must be in a form prescribed by the office
3 of the state auditor.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

33 ~~((+5))~~ (7) Completed audits must be delivered to the office of the
34 state auditor and the state agency by April 1 in the year following the
35 selection of the entity for audit. Entities must resolve any findings
36 contained in the audit within six months of the delivery of the audit.
37 Entities may not enter into new contracts with state agencies until all
38 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, and may be performed according to an
14 agreed upon procedures engagement as in the existing 1998 standards of
15 the American institute of certified public accountants professional
16 standards section 600.

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

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

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

31 NEW SECTION. **Sec. 5.** If specific funding for the purposes of this
32 act, referencing this act by bill or chapter number, is not provided by
33 June 30, 1998, in the omnibus appropriations act, this act is null and
34 void.

Passed the House March 10, 1998.
Passed the Senate March 6, 1998.
Approved by the Governor March 30, 1998.
Filed in Office of Secretary of State March 30, 1998.