

3ESHB 1053 - S AMD TO WM COMM AMD (S-4928.1/04) 773
By Senator Honeyford

WITHDRAWN 03/04/2004

1 On page 4, after line 23 of the amendment, insert the following:
2 "(4)(a) Beginning in 2005, the state auditor shall conduct a
3 performance audit of the department of labor and industries. The
4 performance audit shall include a financial audit and actuarial review
5 of the state fund, under RCW 51.08.175. The joint legislative audit
6 and review committee shall assist in overseeing the audit of the state
7 fund which shall be conducted by a firm recognized as qualified to
8 perform financial audits and a separate independent actuarial audit.
9 The financial audit and the independent actuarial audit may be
10 performed by separate firms.

11 (b) To assist in the performance audit and state fund audit, the
12 department of labor and industries shall prepare financial statements
13 on the state fund in accordance with generally accepted accounting
14 principles, including but not limited to the accident fund, the medical
15 aid fund, the pension reserve fund, the supplemental pension fund, and
16 the second injury fund. Statements shall be presented desegregated and
17 in aggregate.

18 (c) The firm or firms conducting the reviews shall be familiar with
19 the accounting standards applicable to the accounts under review, shall
20 have experience in workers' compensation reserving and rate making in
21 Washington state, and shall employ staff who have attained fellowship
22 in the casualty actuarial society and shall maintain professionally
23 recognized standards of limits for errors and omission insurance.

24 (d) The state auditor shall determine the scope of the financial
25 audit which shall include, but is not limited to, an opinion on whether
26 the financial statements were prepared in accordance with generally
27 accepted accounting principles.

28 (e) The state auditor shall determine the scope of the actuarial
29 audit, which shall include, but is not limited to:

30 (i) An independent estimate of the claim reserves;

31 (ii) An evaluation of the effect of discounting using various
32 investment yields on reported reserve levels;

1 (iii) A retrospective test of the accuracy of labor and industries
2 reserve estimates over at least a fifteen-year period;

3 (iv) An assessment of the actuarial calculations underlying the
4 break-even indicated rate level;

5 (v) A retrospective test of the accuracy of past rate level
6 indications over at least a ten-year period;

7 (vi) An assessment of the actuarial reserving calculations; and

8 (vii) An assessment of the financial impact of the rate level on
9 the actuarial soundness of the industrial insurance fund, taking into
10 consideration the risks inherent with insurance and the fact that
11 competition does not mitigate rate setting.

12 (f) The department of labor and industries shall cooperate with the
13 firms in all respects and shall permit the firms full access to all
14 information the firms deem necessary for a true and complete review.

15 (g) The costs of the audits shall be paid by the state fund under
16 separate interagency agreements with the joint legislative audit and
17 review committee and the state auditor.

18 (h) The final performance audit reports, including the state fund
19 audit, shall be submitted to the board by the state auditor. The board
20 shall release final reports to the citizens of Washington, the
21 governor, and the appropriate legislative committees. The final
22 performance audit reports shall be posted on the internet. The report
23 may include recommendations, and within six months after the final
24 performance audit reports are submitted to the board, the director of
25 the department of labor and industries shall notify the legislative
26 auditor in writing of the measures taken and proposed to be taken, if
27 any, to respond to the recommendations of the audit report."

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