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SENATE BILL 6414

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State of Washington                      58th Legislature                      2004 Regular Session

By Senators Roach, Rasmussen and Esser

Read first time 01/20/2004. Referred to Committee on Commerce & Trade.

1            AN ACT Relating to industrial insurance fund audits; and adding a  
2 new section to chapter 51.44 RCW.

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

4            NEW SECTION.    **Sec. 1.** A new section is added to chapter 51.44 RCW  
5 to read as follows:

6            (1) The department of labor and industries shall prepare financial  
7 statements on the state fund in accordance with generally accepted  
8 accounting principles, including but not limited to the accident fund,  
9 the medical aid fund, the pension reserve fund, the supplemental  
10 pension fund and the second injury fund. Statements shall be presented  
11 desegregated and in aggregate.

12            (2) Beginning in 2005, the state auditor shall conduct annual  
13 audits of the state fund. As part of these audits, the auditor may  
14 contract with firms qualified to perform a financial audit and a  
15 separate independent actuarial audit.

16            (a) The firm or firms conducting the reviews shall be familiar with  
17 the accounting standards applicable to the accounts under review, shall  
18 have experience in workers' compensation reserving and rate making, and  
19 shall employ staff who have no fewer than three people who have

1 attained fellowship in the casualty actuarial society and shall  
2 maintain limits of errors and omission insurance as prescribed by the  
3 auditor.

4 (b) The auditor shall determine the scope of the financial audit  
5 which shall include, but is not limited to, an opinion on whether the  
6 financial statements were prepared in accordance with generally  
7 accepted accounting principles.

8 (c) The auditor shall determine the scope of the actuarial audit,  
9 which shall include, but is not limited to:

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

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

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

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

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

19 (vi) An assessment of the actuarial reserving calculations;

20 (vii) An assessment of the financial impact of the proposed rate  
21 level on the actuarial soundness of the industrial insurance fund,  
22 taking into consideration the risks inherent with insurance and the  
23 fact that competition does not mitigate rate setting.

24 (d) The department of labor and industries shall cooperate with the  
25 firms in all respects and shall permit the firms full access to all  
26 information the firms deem necessary for a true and complete review.

27 (e) The cost of the audit shall be paid by the state fund under  
28 separate contract.

29 (3) The auditor shall issue an annual report to the governor, the  
30 leaders of the majority and minority caucuses in the senate and the  
31 house of representatives, the director of the office of financial  
32 management, and the director of the department of labor and industries  
33 on the results of the financial and actuarial audits and reviews,  
34 within six months of the end of the fiscal year. The report may  
35 include recommendations.

36 (4) The audit report shall be available for public inspection.

37 (5) Not later than ninety days after the auditor completes and  
38 delivers to the appropriate authority an audit under subsection (2) of

1 this section, the director of the department of labor and industries  
2 shall notify the auditor in writing of the measures taken and proposed  
3 to be taken, if any, to respond to the recommendations of the audit  
4 report. The auditor may extend the ninety-day period for good cause.

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