

FINAL BILL REPORT

SHB 1856

C 387 L 05

Synopsis as Enacted

Brief Description: Requiring industrial insurance fund audits.

Sponsors: By House Committee on Commerce & Labor (originally sponsored by Representatives Conway, Condotta, Wood, McCoy, Kessler, Campbell and Chase).

House Committee on Commerce & Labor

Senate Committee on Labor, Commerce, Research & Development

Background:

The Department of Labor and Industries (Department) administers the Washington industrial insurance system. The Department's responsibilities include operating the state fund from which employers who are not self-insured purchase industrial insurance coverage.

The industrial insurance trust fund administered by the Department includes three basic funds: the Accident Fund, the Medical Aid Fund, and the Supplemental Pension Fund. The Accident Fund is used to pay time-loss benefits, permanent partial disability awards, and pensions. The Medical Aid Fund is used to pay medical and vocational rehabilitation benefits. The Supplemental Pension Fund is used to pay cost-of-living adjustments to workers receiving time-loss or pension payments.

All state fund employers pay premiums to the Department for these three funds. These employers deduct one-half of the premium for the Medical Aid Fund and the Supplemental Pension Fund from their employees' wages.

The State Auditor is required to audit state agencies at intervals determined by the State Auditor. Audits of financial statements must include determinations regarding the validity and accuracy of accounting methods and standards used in the statement's preparation, as well as the accuracy of the statement.

Summary:

The Department of Labor and Industries (Department) is required to prepare financial statements on various industrial insurance funds using generally accepted accounting principles (GAAP) and financial information based on statutory accounting principles.

Beginning in 2006, the State Auditor must conduct annual audits of the state fund, which must be coordinated with other Department audits that the State Auditor conducts. As part of the audit, the State Auditor may contract with firms qualified to perform a financial audit. The firms doing reviews must be familiar with accounting standards applicable to these accounts and have experience in workers' compensation reserving, discounting, and ratemaking.

The financial audit must include at least:

- an opinion on whether the financial statements were prepared in accordance with GAAP;
- an assessment of the financial impact of proposed rates on the funds' actuarial solvency, taking into consideration various factors, including insurance risks, actuarial assumptions, discount rates, reserving, retrospective rating programs, refunds, individual employer rate classes, as well as standard accounting principles used for insurance underwriting; and
- an actuarial opinion on whether the loss and loss adjustment expense reserves for the Accident Fund, Medical Aid Fund, and Pension Reserve Fund were prepared under generally accepted actuarial principles.

The State Auditor must issue an annual report on the results of the audits and reviews within six months of the end of the fiscal year. The report is made to the Governor, majority and minority caucus leadership in both chambers of the Legislature, the Office of Financial Management, and the Department. The Department, within 90 days of delivery of the report, must notify the State Auditor about measures it has taken or proposed in response to the report, if any.

Votes on Final Passage:

House	94	0	
Senate	46	0	(Senate amended)
House	95	0	(House concurred)

Effective: July 24, 2005