

SENATE BILL REPORT

SB 5614

As Reported By Senate Committee On:
Labor, Commerce, Research & Development, February 22, 2005

Title: An act relating to industrial insurance fund audits.

Brief Description: Requiring annual audits of the state industrial insurance fund.

Sponsors: Senators Keiser, Parlette, Rasmussen, Hargrove, Honeyford, Mulliken, Berkey, Oke and Kohl-Welles.

Brief History:

Committee Activity: Labor, Commerce, Research & Development: 2/14/05, 2/22/05 [DPS, w/oRec].

SENATE COMMITTEE ON LABOR, COMMERCE, RESEARCH & DEVELOPMENT

Majority Report: That Substitute Senate Bill No. 5614 be substituted therefor, and the substitute bill do pass.

Signed by Senators Kohl-Welles, Chair; Franklin, Vice Chair; Brown, Honeyford, Keiser and Prentice.

Minority Report: That it be referred without recommendation.

Signed by Senator Parlette, Ranking Minority Member.

Staff: Jennifer Strus (786-7316)

Background: The state workers' compensation fund has several component funds, including the accident fund, medical aid fund, pension reserve fund, supplemental pension fund, and second injury fund.

The State Auditor has the statutory responsibility to conduct a financial audit of the Department of Labor and Industries (L&I) at intervals determined by the State Auditor. There is no statutory provision for an actuarial audit to be conducted.

Summary of Substitute Bill: L&I must prepare financial statements on the state fund in accordance with generally acceptable accounting principles(GAAP). Statements are to be presented desegregated and in aggregate.

Starting in 2006, the State Auditor must conduct annual audits of the state fund. The auditor determines the scope of the financial audit which must include an opinion on whether the financial statements were prepared in accordance with GAAP and an assessment of the financial impact of the proposed rate level on the actuarial soundness of all the workers' compensation funds.

L&I must cooperate with the auditor and permit him or her full access to all information necessary to conduct the audit.

Within six months of the end of the fiscal year, the auditor must issue an annual report to the Governor, the legislative leaders, the Office of Financial Management, and L&I on the results of the financial audit and review. Within 90 days after L&I receives the audit report, it must notify the auditor of its response, including measures taken, to the auditor's recommendations. The auditor may extend the 90 day period by an additional 90 days for good cause.

Substitute Bill Compared to Original Bill: L&I is to prepare financial information for the workers' compensation funds based upon the statutory accounting practices and principles promulgated by the national association of insurance commissioners for the purpose of maintaining the actuarial solvency of these funds. The scope of the audit is amended to include a statement of actuarial opinion on whether the loss and loss adjustment expense reserves for the major workers' compensation funds are prepared in accordance with generally accepted actuarial principles. Audits of L&I already required to be performed by the State Auditor must be coordinated with the audits required under this bill.

Appropriation: None.

Fiscal Note: Requested on February 2, 2005.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: Insurance companies must undergo stringent audits and the workers' compensation funds should be no different. It is absolutely necessary for small business to see the transparency of the workers' compensation system and these audits will provide that transparency along with information to assist the legislature in its policy making decisions.

Testimony Against: None.

Other: The audit needs to be broad but do not want it so broad that it duplicates current audit requirements. Instead of saying actuarially sound, should say actuarially solvent. During audits of insurance companies, SAP for insurance regulators is used rather than GAAP. These principles provide a better picture of how financially sound the fund is.

Who Testified: PRO: Senator Keiser, prime sponsor; Mark Johnson, Washington Retail Association; Carolyn Logue, National federation of Independent Business; Amber Carter, Association of Washington Business; Rick Slunaker, Associated General Contractors; Gary Smith, Independent Business Association. OTHER: Owen Linch, Teamsters; Bob Malooly, Department of Labor & Industries.