
SUBSTITUTE HOUSE BILL 1856

State of Washington

59th Legislature

2005 Regular Session

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

READ FIRST TIME 02/23/05.

1 AN ACT Relating to industrial insurance fund audits; amending RCW
2 43.09.310; and adding a 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 shall:

7 (a) Prepare financial statements on the state fund in accordance
8 with generally accepted accounting principles, including but not
9 limited to financial statements on the accident fund, the medical aid
10 fund, the supplemental pension fund, and the second injury fund.
11 Statements must be presented separately by fund and in the aggregate;
12 and

13 (b) Prepare financial information for the accident fund, medical
14 aid fund, and pension reserve fund based on statutory accounting
15 practices and principles promulgated by the national association of
16 insurance commissioners for the purpose of maintaining actuarial
17 solvency of these funds.

18 (2) Beginning in 2006, and, to avoid duplication, coordinated with
19 any audit that may be conducted under RCW 43.09.310, the state auditor

1 shall conduct annual audits of the state fund. As part of the audits
2 required under this section, the state auditor may contract with firms
3 qualified to perform all or part of the financial audit, as necessary.

4 (a) The firm or firms conducting the reviews shall be familiar with
5 the accounting standards applicable to the accounts under review and
6 shall have experience in workers' compensation reserving, discounting,
7 and rate making.

8 (b) The scope of the financial audit shall include, but is not
9 limited to:

10 (i) An opinion on whether the financial statements were prepared in
11 accordance with generally accepted accounting principles;

12 (ii) An assessment of the financial impact of the proposed rate
13 level on the actuarial solvency of the accident, medical aid, and
14 pension reserve funds, taking into consideration the risks inherent
15 with insurance and the effects of the actuarial assumptions, discount
16 rates, reserving, retrospective rating program, refunds, and individual
17 employer rate classes, as well as the standard accounting principles
18 used for insurance underwriting purposes; and

19 (iii) A statement of actuarial opinion on whether the loss and loss
20 adjustment expense reserves for the accident, medical aid, and pension
21 reserve funds were prepared in accordance with generally accepted
22 actuarial principles.

23 (c) The department shall cooperate with the state auditor in all
24 respects and shall permit the state auditor full access to all
25 information deemed necessary for a true and complete review.

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

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

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

35 (5) Within ninety days after the state auditor completes and
36 delivers to the appropriate authority an audit under subsection (2) of
37 this section, the director of the department shall notify the state

1 auditor in writing of the measures taken and proposed to be taken, if
2 any, to respond to the recommendations of the audit report. The state
3 auditor may extend the ninety-day period for good cause.

4 **Sec. 2.** RCW 43.09.310 and 1996 c 288 s 35 are each amended to read
5 as follows:

6 (1) Except as provided in subsection (2) of this section, the state
7 auditor shall annually audit the statewide combined financial
8 statements prepared by the office of financial management and make
9 post-audits of state agencies. Post-audits of state agencies shall be
10 made at such periodic intervals as is determined by the state auditor.
11 Audits of combined financial statements shall include determinations as
12 to the validity and accuracy of accounting methods, procedures and
13 standards utilized in their preparation, as well as the accuracy of the
14 financial statements themselves. A report shall be made of each such
15 audit and post-audit upon completion thereof, and one copy shall be
16 transmitted to the governor, one to the director of financial
17 management, one to the state agency audited, one to the joint
18 legislative audit and review committee, one each to the standing
19 committees on ways and means of the house and senate, one to the chief
20 clerk of the house, one to the secretary of the senate, and at least
21 one shall be kept on file in the office of the state auditor. A copy
22 of any report containing findings of noncompliance with state law shall
23 be transmitted to the attorney general.

24 (2) Audits of the department must be coordinated with the audits
25 required under section 1 of this act to avoid duplication of audits.

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