

# HOUSE BILL REPORT

## HB 2259

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**As Reported by House Committee On:**  
State Government, Elections & Information Technology

**Title:** An act relating to the state auditor's duties and procedures.

**Brief Description:** Addressing the state auditor's duties and procedures.

**Sponsors:** Representatives Dolan, Doglio, Hudgins and Jinkins; by request of State Auditor.

**Brief History:**

**Committee Activity:**

State Government, Elections & Information Technology: 1/17/18, 1/24/18 [DP].

**Brief Summary of Bill**

- Authorizes the Office of the State Auditor (SAO) to adopt rules around reporting known or suspected loss of public funds or assets or other illegal activity.
- Removes the SAO's obligation to conduct certain audits.
- Modifies certain reporting requirements around the annual local government financial reports and the SAO's routine audit of state agencies.

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### HOUSE COMMITTEE ON STATE GOVERNMENT, ELECTIONS & INFORMATION TECHNOLOGY

**Majority Report:** Do pass. Signed by 9 members: Representatives Hudgins, Chair; Dolan, Vice Chair; McDonald, Ranking Minority Member; Kraft, Assistant Ranking Minority Member; Appleton, Gregerson, Irwin, Johnson and Pellicciotti.

**Staff:** Desiree Omlie (786-7105).

**Background:**

State Auditor's Office.

The Office of the Washington State Auditor (SAO) holds state and local governments accountable for the use of public resources. The State Auditor (Auditor) has the power to

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examine the financial affairs of all governments in the state, including local governments, schools, state agencies, and institutions of higher education. In addition, the SAO carries out special investigations and performance audits of state agencies and local governments.

#### Loss of Public Funds.

State agencies and local governments must immediately report to the SAO any known or suspected loss of public funds or assets or other illegal activity.

#### Toll-Free Efficiency Hotline.

The Washington State Auditor (Auditor) must establish a toll-free telephone line available to public employees and members of the public to recommend ways to improve efficiency in state and local government. The hotline may be used to report waste, inefficiency, or abuse, as well as incidents of achievement and efficiency. The Auditor must conduct initial reviews of each recommendation received and designate staff to conduct further examination or audit if required. The Auditor must prepare a written determination of the investigation performed that includes recommendations. The report must be distributed to the affected state agencies.

#### Annual Reports—Local Government.

Every local government must submit financial reports to the SAO for each fiscal year. The reports must contain:

1. collections made or receipts received by officers from all sources;
2. accounts due to the public treasury but not collected;
3. expenditures for every purpose and which authority authorized the expenditure;
4. a statement of all costs of ownership and operation, and of all income, of each and every public service industry owned and operated by a local government;
5. a statement of the entire public debt of every local government including other relevant information;
6. a classified statement of all receipts and expenditures by any public institution; and
7. a statement of all expenditures for labor relations consultants, with the identification of each consultant, compensation, and the terms and conditions of each agreement or arrangement.

#### Routine Audits of State Agencies.

As part of the routine audits of state agencies, the Auditor must audit all revolving funds, local funds, and other state funds and state accounts that are not managed by or in the care of the State Treasurer and that are under the control of state agencies, such as state departments, boards, and commissions. The Auditor must examine revenues and expenditures or assets and liabilities, accounting methods and procedures, and recordkeeping practices.

The Auditor must report to the Legislature on the status of the funds and accounts examined during the preceding biennium and any recommendations for their improved financial management. The report must be filed with the Legislature within five months of the end of each biennium.

#### Transportation Performance Auditor Board.

In 2005 a statewide transportation governance was restructured. The Transportation Performance Audit Board (TPAB) was given authority to direct performance audits and to review performance measures and outcomes of transportation-related agencies and certain

local transportation entities. Also in 2005, voters approved Initiative 900 (I-900), requiring the Auditor to conduct performance audits of state and local governments including state and local transportation governmental entities and each of their agencies, accounts, and programs. The TPAB was extended only until July 1, 2007, and the function of conducting performance audits transitioned to the Auditor, consistent with its responsibilities since the enactment of I-900.

#### Local Government Accounting.

The Auditor periodically examines the financial affairs of all local governments. An examination of the financial affairs of all local governments are made at least once every three years, and an examination of individual local government health and welfare benefit plans and local government self-insurance programs are made at least once every two years. As part of these examinations, the Auditor must review the tax levies of all local governments.

#### Long-Term In-Home Care Program.

Initiative 1163 (I-1163), approved by the voters in November 2011, modifies the law governing training and home care aide certification for long-term care workers. The Auditor is required, under I-1163, to conduct biennial performance audits of the long-term in-home care program, beginning by January 7, 2013. As part of the auditing process, the state shall hire five additional fraud investigators to ensure that clients receiving services at taxpayers' expense are medically and financially qualified to receive the service and are actually receiving the service.

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### **Summary of Bill:**

#### Loss of Public Funds.

The reporting requirement around the procedures for state agencies and local governments to report known or suspected loss of public funds or assets is modified. Immediate reporting is not required, and the Auditor may adopt rules for these reporting procedures.

#### Toll-Free Efficiency Hotline.

The written determinations prepared by the Auditor of investigations that arise from recommendations collected through the hotline must also be distributed to the affected local agencies.

#### Annual Reports—Local Government.

Local governments are no longer required to include in its annual financial report to the SAO statements of all expenditures for labor relations consultants, the identification of each consultant, compensation, and the terms and conditions of each agreement or arrangement.

#### Routine Audits of State Agencies.

The Auditor is no longer required to report to the Legislature on the status of the funds and accounts examined during the preceding biennium as part of its routine audit of state agencies, or any recommendations arising from such audit.

Transportation Performance Auditor Board.

Statutory reference to the dissolved TPAB is removed.

Local Government Accounting.

The Auditor is no longer required to review the tax levies of all local governments during its periodic examinations of the financial affairs of local governments.

Long-Term In-Home Care Program.

Provisions requiring the Auditor to conduct performance audits of long-term, in-home care programs are repealed.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) This is a technical clean-up bill and makes the Auditor's job more efficient without reducing transparency. The information provided relating to labor relation consultants is available on the local government level; reporting it in the financial reports to the SAO is redundant. In addition, there are no identified users of the annual state audit report and it is available online for people to access. Section five of the statute was repealed in 2006 and the reference needs to be taken out of the SAO statute.

(Opposed) None.

**Persons Testifying:** Scott Nelson; Kelly Collins; and Chuck Pfeil, Office of the Washington State Auditor

**Persons Signed In To Testify But Not Testifying:** None.