

# HOUSE BILL REPORT

## SB 5002

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### As Passed House - Amended:

March 3, 2022

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

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

**Sponsors:** Senators Hunt, Carlyle, Conway, Dhingra, Hasegawa, Hawkins, Mullet, Rivers and Wilson, C.; by request of State Auditor.

### Brief History:

#### Committee Activity:

State Government & Tribal Relations: 2/16/22, 2/17/22 [DPA].

#### Floor Activity:

Passed House: 3/3/22, 96-1.

### Brief Summary of Bill (As Amended by House)

- Requires the State Auditor to establish policies for agency reporting of loss of funds, assets, or other illegal activity.
- Eliminates the Citizen Advisory Board (Board) and the performance audit program under the authority of the Board.
- Makes other modifications to existing audit requirements and audit functions of the State Auditor.

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## HOUSE COMMITTEE ON STATE GOVERNMENT & TRIBAL RELATIONS

**Majority Report:** Do pass as amended. Signed by 6 members: Representatives Valdez, Chair; Lekanoff, Vice Chair; Volz, Ranking Minority Member; Walsh, Assistant Ranking Minority Member; Dolan and Gregerson.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.*

**Minority Report:** Without recommendation. Signed by 1 member: Representative Graham.

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

**Background:**

Office of the Washington State Auditor.

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

Financial Audits.

*Local Government Audits.* Every local government must submit financial reports to the SAO for each fiscal year. The report must be filed with the SAO within 150 days after the close of each fiscal year. The reports must contain certain information, including 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.

The SAO 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 SAO must review the tax levies of all local governments.

*State Agency Audits.* As part of the routine audits of state agencies, the SAO 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. The SAO must report to the Legislature, within five months of the end of each biennium, on the status of the funds and accounts examined during the preceding biennium and any recommendations for their improved financial management.

Long-Term In-Home Care Program Audit.

Under Initiative 1163, approved by the voters in November 2011, the SAO is required to conduct biennial performance audits of the long-term in-home care program. As part of the auditing process, the state was required to 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.

#### Performance Audits.

The statute provides for two types of performance audits: performance audits completed under the Performance Audit Program and comprehensive performance audits required under Initiative-900 (I-900).

*Performance Audit Program.* The Citizen Advisory Board (Board) was created in 2005 to improve efficiency, effectiveness, and accountability in state government. The Board and the SAO is required to collaborate with the Joint Legislative Audit Review Committee (JLARC) regarding performance audits of state government, except for transportation-related agencies. The Board is responsible for establishing criteria for performance audits, as part of a performance audit program (Program). The SAO and the Board are required to develop a draft work plan for performance audits under the Program. The SAO is required to contract out for the performance audits. The performance audits may include various inquiries such as the identification of programs and services that can be eliminated or consolidated, analysis of roles and functions of the state agency, and evaluation of personnel systems. The SAO must solicit comments on preliminary performance audit reports from the audited agency, the Office of the Governor, and the Office of Financial Management. An agency audited under the Program is responsible for follow-up and corrective action on all performance audit findings. Every four years, the JLARC is required to contract with a private entity for a performance audit of the Program and the Board's responsibilities as it relates to the Program. The Transportation Performance Audit Board (TPAB), which was dissolved in 2006, was responsible for conducting performance audits and reviews of performance measures and outcomes of transportation-related agencies. When the TPAB was dissolved, this function of performance audits was transitioned to the SAO as part of its comprehensive performance audits.

In addition, the SAO has the discretion to conduct a performance audit of programs under the jurisdiction of a local government upon request of that jurisdiction's legislative authority. The audit performed is funded by local funds.

*Comprehensive Performance Audits.* Initiative 900 was approved by the voters in November 2005. Initiative 900 requires the SAO to conduct comprehensive performance audits of state and local governments, including state and local transportation governmental entities, and each of their agencies, accounts, and programs. The comprehensive performance audit required under I-900 is separate from the performance audits conducted under the Program. The scope of the performance audits required under I-900 is largely similar to what may be included in the scope of the audits conducted under the Program.

#### **Summary of Amended Bill:**

##### Loss of Public Funds.

The SAO must adopt policies regarding the reporting of any known or suspected loss of

public funds or assets or other illegal activity.

Financial Audits.

*Local Government Audits.* A local government is no longer required to include in its annual financial report to the SAO statements of all expenditures for labor relations consultants, the identification and compensation of each consultant, and the terms and conditions of each agreement. In addition, the SAO is no longer required to review the tax levies of all local governments during its periodic examinations of the financial affairs of local governments.

*State Agency Audits.* The SAO 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.

Long-Term In-Home Care Program Audit.

The State Auditor must conduct audits of the long-term, in-home care program after consultation with affected disability and aging stakeholder groups, and may use its authority to inspect the books and complete audits of public accounts to satisfy the biennial audit requirement if a performance audit was completed in the preceding biennium.

Performance Audits.

The statute creating the Board is repealed. The responsibility to conduct performance audits under the Program and related provisions are removed.

The statute granting the SAO discretion to conduct a performance audit of programs under the jurisdiction of a local government upon request of that jurisdiction's legislative authority is repealed.

**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) The bill ensures that the role of the Governor's Office in reviewing performance audits remain intact. It also strengthens the fraud and loss reporting statute to ensure prompt and fair reporting standards and saves money for state and local governments by reducing redundant reports that are readily available online. Outdated statutes that have been overridden by the performance audits required under I-900 are repealed.

(Opposed) Sections 3 and 5 of the bill remove transparency and accountability features without any replacement that includes public input and there is a concern about the

consequences of this bill on good governance for the citizens of Washington. The performance audits in current law are based on the fundamental principles of transparency and citizen oversight, but the bill removes the Board and does not replace it with any other accountability oversight. The bill also does not include an assessment of the recently published Attorney General opinion (AGO 2021 No. 5) on the oversight role of the State Board on Accountancy. The fiscal note also states that tax levies are not an identified risk, but schools would disagree and tax levies need to be accounted for. The fiscal note also says that the Board is a non-value-added administrative requirement, but citizens would disagree with that.

**Persons Testifying:** (In support) Scott Nelson, Office of the Washington State Auditor.

(Opposed) Ken Smith.

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