
SUBSTITUTE SENATE BILL 6414

State of Washington

58th Legislature

2004 Regular Session

By Senate Committee on Government Operations & Elections (originally sponsored by Senators Roach, Rasmussen and Esser)

READ FIRST TIME 01/29/04.

1 AN ACT Relating to industrial insurance fund audits; and adding a
2 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 of labor and industries shall prepare financial
7 statements on the state fund in accordance with generally accepted
8 accounting principles, including but not limited to the accident fund,
9 the medical aid fund, the pension reserve fund, the supplemental
10 pension fund and the second injury fund. Statements shall be presented
11 desegregated and in aggregate.

12 (2) Beginning in 2005, the joint legislative audit and review
13 committee with the office of the state actuary shall oversee annual
14 audits of the state fund. The audits shall be conducted by firms
15 recognized as qualified to perform a financial audit and a separate
16 independent actuarial audit. The financial audit and the independent
17 actuarial audit may be performed by separate firms.

18 (a) The firm or firms conducting the reviews shall be familiar with
19 the accounting standards applicable to the accounts under review, shall

1 have experience in workers' compensation reserving and rate making in
2 Washington state, and shall employ staff who have no fewer than three
3 people who have attained fellowship in the casualty actuarial society
4 and shall maintain professionally recognized standards of limits for
5 errors and omission insurance.

6 (b) The legislative auditor shall determine the scope of the
7 financial audit which shall include, but is not limited to, an opinion
8 on whether the financial statements were prepared in accordance with
9 generally accepted accounting principles.

10 (c) The legislative auditor, in consultation with the state
11 actuary, shall determine the scope of the actuarial audit, which shall
12 include, but is not limited to:

13 (i) An independent estimate of the claim reserves;

14 (ii) An evaluation of the effect of discounting using various
15 investment yields on reported reserve levels;

16 (iii) A retrospective test of the accuracy of labor and industries
17 reserve estimates over at least a fifteen-year period;

18 (iv) An assessment of the actuarial calculations underlying the
19 break-even indicated rate level;

20 (v) A retrospective test of the accuracy of past rate level
21 indications over at least a ten-year period;

22 (vi) An assessment of the actuarial reserving calculations;

23 (vii) An assessment of the financial impact of the proposed rate
24 level on the actuarial soundness of the industrial insurance fund,
25 taking into consideration the risks inherent with insurance and the
26 fact that competition does not mitigate rate setting.

27 (d) The department of labor and industries shall cooperate with the
28 firms in all respects and shall permit the firms full access to all
29 information the firms deem necessary for a true and complete review.

30 (e) The costs of the audits shall be paid by the state fund under
31 separate interagency agreements with the joint legislative audit and
32 review committee and the office of the state actuary.

33 (3) The legislative auditor shall issue an annual report to the
34 governor, the leaders of the majority and minority caucuses in the
35 senate and the house of representatives, the director of the office of
36 financial management, the director of the department of labor and
37 industries, and the attorney general on the results of the financial

1 and actuarial audits and reviews, within six months of the end of the
2 fiscal year. The report may include recommendations.

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

4 (5) Within six months after the legislative auditor completes and
5 delivers to the appropriate authority an audit under subsection (2) of
6 this section, the director of the department of labor and industries
7 shall notify the legislative auditor in writing of the measures taken
8 and proposed to be taken, if any, to respond to the recommendations of
9 the audit report. The office of the attorney general and the
10 department shall discuss its actions in response to an audit at a
11 public meeting of the joint legislative audit and review committee.

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