

HOUSE BILL REPORT

HB 1548

As Reported By House Committee On:

Financial Institutions & Insurance

Title: An act relating to performance audits of the state investment board.

Brief Description: Auditing the state investment board.

Sponsors: Representatives L. Thomas, Dellwo, Goldsmith, Rust, Wolfe, B. Thomas, Backlund, Kessler, Kremen, Robertson, Thompson, Huff, Elliot, McMorris, D. Schmidt, McMahan, Hickel, Schoesler, Clements, Cooke and Brumsickle; by request of State Treasurer.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 2/6/95, 2/8/95 [DPS].

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 15 members: Representatives L. Thomas, Chairman; Beeksma, Vice Chairman; Smith, Vice Chairman; Wolfe, Ranking Minority Member; Grant, Assistant Ranking Minority Member; Benton; Campbell; Costa; Dellwo; Dyer; Huff; Kessler; Mielke; Ogden and Pelesky.

Staff: Charlie Gavigan (786-7340).

Background: The State Investment Board is a state agency created in 1981 to administer public trust and retirement funds. The board is comprised of 14 members: one representative of retired public employees, one representative of retired law enforcement officers and fire fighters, one representative of retired teachers, the state treasurer, a member of the State House of Representatives, a member of the State Senate, a representative of retired state employees, the director of the Department of Labor and Industries, the director of the Department of Retirement Systems, and five non-voting members appointed by the State Investment Board with experience in making investments.

The State Investment Board manages 23 funds which total approximately \$19 billion.

Like other state agencies, the State Investment Board must make reports to and account for its activities to the Office of Financial Management and be subject to audit by the state auditor on the receipt and expenditure of public funds.

The Legislative Budget Committee (LBC) is a joint legislative committee comprised of eight representatives and eight senators. The committee generally makes examinations and reports for the Legislature's consideration on whether state agencies are spending funds appropriately and on how state government can be more effective and efficient. The LBC also does sunset reviews; these are reports on whether certain programs should be continued or should expire.

Summary of Substitute Bill: The state auditor, in consultation with the Legislative Budget Committee must administer audits of the State Investment Board (SIB). A performance must be done at least every four years, but may not be done any more frequently than every two years unless requested earlier by the Governor. The state auditor must provide a schedule of performance audits and solicit public comment. The cost of the performance audit is to be born by the SIB from income on investments. The auditor must coordinate with the LBC and state agencies to the greatest extent possible when conducting performance audits of the SIB. The audit itself must be done by experienced private firms.

The performance audit includes identifying the appropriate statutory mandates that apply to the SIB regarding investments and determining whether the SIB is complying with these mandates. In addition, the performance audit must identify appropriate standards for management practices and operations regarding investments and whether the SIB is complying with these standards. The performance audit should recommend ways for the board to improve its level of compliance.

Substitute Bill Compared to Original Bill: Clarification is made that the audit focus on practices that relate to investments and that the cost of the audit is paid from investment income. A provision is added to make the minimum time between audits two years unless the Governor requests an earlier audit to address serious concerns that arise.

Appropriation: None.

Fiscal Note: Requested on February 3, 1995.

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

Testimony For: The State Investment Board's management of its investment portfolio should be reviewed through independent, regular audits done by experienced private firms.

Testimony Against: None.

Testified: James F. Parker, Washington State Investment Board (pro); Jimmy Cason, Washington State Investment Board (pro); and Dan Grimm, State Treasurer (pro).