



Washington Research Council

POLICY

brief

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BRIEFLY

It is widely agreed that performance auditing is an effective means of saving money, improving efficiency and increasing transparency in state government. Voter approval of I-900 would give Washington the nation's most extensive performance auditing program.

Hearing the Call for Accountability: Initiative 900

Performance auditing has become a common response to tightening state budgets, management inefficiencies, and the growing popularity of performance based management and budgeting. Currently, most states have legislation authorizing performance audits at various levels of government (Willoughby, 2004). Passage of I-900 would make Washington a leader in this trend, and the first state with an auditor empowered to conduct performance audits on any state or local agency independent of legislative approval.

THE INITIATIVE

Despite the passage of a performance audit bill by the 2005 legislature, this much broader initiative qualified for the ballot with an impressive 311,858 signatures. Supporters include Rep. Mark Miloscia (D, Federal Way), the sponsor of the performance audit bill HB 1064.

The initiative gives the state auditor the power to conduct performance audits of all state and local government agencies. (Currently, the auditor is explicitly prevented from doing this.) The audits must include nine elements, including identification of cost savings, identification of programs or services that can be cut or transferred to the private sector, analysis of department performance data and identification of best practices. The State Auditor's Office (SAO) will also be responsible for advising audited agencies on step-by-step remedies to existing inefficiencies.

I-900 allocates 0.16 percent of state sales taxes to the auditor's office for this purpose, amounting to an estimated \$17 million for the 2005-2007 biennium and \$25 million for the 2007-2009 biennium (OFM, 2005). Funding is guaranteed and does not need to be allocated by the legislature.

In order to increase the transparency of the audit results, the initiative calls for all audits to be made public by the appropriate legislative body, which must also hold a public meeting to review the results and take comments from the public. The initiative also requires that the legislature submit annual reports to the Joint Legislative Audit and Review Committee (JLARC) justifying any SAO recommendations not taken into account in the budgeting process, along with details of alternative corrective action.

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Washington State Performance Audit Programs				
	I-900	HB-1064	JLARC	TPAB
Creation	Pending	2005	1991, replacing the Legislative Budget Committee	2003
Funding	Guaranteed 0.16 percent of sales tax, about \$12 million per year	\$2.4 million allocated by legislature per year	\$2.2 million allocated by legislature per year	\$2.3 million from the Transportation Commission
Management	State Auditor's Office	Appointed citizen board	Legislature; appointed legislators	Executive branch; appointed citizens and legislators
Scope	All state and local agencies prioritized by state auditor	State agencies selected by citizen board	State agencies selected by legislature	State transportation agencies
Method	SAO or contracted auditors	Contracted auditors	JLARC and contracted auditors	JLARC, SAO, and contracted auditors
Results	SAO helps plan implementation of audit results; legislature required to use audit information in budgeting; must submit an annual report	Agency plans implementation of audit results	JLARC provides recommendations and suggested implementation dates, agency plans implementation	TPAB provides recommendations and suggested implementation dates, agency plans implementation
Sources: Initiative 900, House Bill 1064, http://www1.leg.wa.gov/jlarc/ , http://www1.leg.wa.gov/tpab/				

OVERLAP

Currently there are two bodies authorized to conduct performance audits in Washington. The oldest, JLARC, was created by the legislature and conducts audits at the request of the legislature exclusively. It is estimated that, since 1990, reports by JLARC and its predecessor, the legislative budget committee, have saved Washingtonians about \$500 million.

In 2003, the Transportation Performance Audit Board was created exclusively for performance reviews and audits of Washington's state transportation agencies.

The auditing body created by HB 1064 is run by a citizen board appointed by the Governor and has an annual budget of \$2.4 million. The citizen board decides which programs will be audited and contracts out the audits; the results will be made public. The funding for HB 1064 must be re-allocated by the legislature in each budget.

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None of these programs will be canceled if I-900 passes. See the adjoining table for a comparison of the three programs and I-900.



SCOPE

I-900 says “the people encourage the state auditor [...] to pursue all governmental agencies in due course.” Ultimately, this means more than 147 state agencies and 2,400 local agencies of 33 different types would need experts to analyze and critique their achievement of unique goals. The SAO said in a November, 2004 statement that in order to fulfill that mandate it would take over \$45 million per year and more than 10 years to develop the human resources of the auditors department (2004).

State Auditor Brian Sonntag, who does not object to I-900, has stated he does not think the language of the initiative demands such extensive action (Lewis, 2005). Initiative sponsor Tim Eyman said he envisions the scenario that the auditor’s office will start with the “largest, costliest” agencies as “encouraged” in I-900, and audit as many agencies as funding allows.

EFFECTIVENESS

Outside of the requirements of the initiative, there is the larger question of the effectiveness of performance audits and the degree of savings that can be expected. Performance auditing has growing popularity around the country, with Texas’s 15-year-old performance auditing program identifying \$16 billion in savings, California’s one time 5-year state-wide audit identifying over \$32 billion in savings, and Colorado’s one-year program generating \$41 million in savings.

Does Washington have the infrastructure to emulate such drastic savings? In Washington, JLARC already has a proven track record of successful cost saving audits and has laid a foundation for communication and coordination with the legislature which I-900 can build upon. The Maxwell School’s Government Performance Project ranked Washington at the top of the nation in performance information collecting and sharing (GPP, 2005); statewide performance auditing by the state auditor will not be an unnatural progression for Washington agencies.

Many counties and cities around Washington State have already adopted performance-based management systems, which should smooth the transition for local agencies unfamiliar with utilizing performance audit results. More extensive and coordinated performance auditing will also provide a wealth of data for performance based budgeting programs such as the Priorities of Government (POG) budget system.

The benefits of performance auditing extend beyond concrete financial savings. Information and accountability make for more effective, communicative, and trusted state agencies. Georgia State University professor Katherine Willoughby found, using data from a survey of 212 budget officers and state agency heads, that over 90 percent of surveyed state agency heads believe performance measurement greatly or somewhat improves results. Eighty percent also believe performance measurement resulted in improved communication between departments, responsiveness to customers, and improved communication with the legislature (Willoughby, 2002).



CHALLENGES

I-900 gives the SAO broad new powers. Given that these powers would rest in the hands of a single elected official, voters should carefully consider the details. I-900 gives the SAO complete control over the selection of agencies to be audited. Conceivably, the threat of performance audits, which are much more subjective than financial audits, could be used for political, rather than performance, ends.

Concerns have been raised that SAO cannot effectively audit thousands of local agencies, each with different goals, priorities and management systems. Opponents fear that performance standards will provide blanket solutions rather than tailored plans and argue that performance auditing should be left up to the agencies themselves.

While I-900 can provide insight into potential cost cutting measures, it will not be a panacea for all budgeting problems. Bridging the gap between the legislature and the auditor's office will be difficult. Willoughby's survey found that 81 percent of budget staff surveyed believe legislative disinterest "is problematic to usefulness when appropriations are being discussed." Similar comments have come from surveys of state auditors (Willoughby, 2004).

The initiative does address this issue, but the legislative obligations it creates are vague. I-900 stipulates that "the legislature must consider the state auditor reports in connection with the legislative appropriations process" and submit an annual report to the state auditor on their use of findings, but provides for no independent review of the legislature's use of the performance audit results.

A 2001 study by the Campbell Public Affairs Institute found a positive correlation between the amount of performance information available and the use of performance information when the information is "accessible and accompanied by active leadership." The lack of open legislative opposition to I-900, the legislature's successful use of JLARC's audits, and previous experience with POG budgeting, will provide a foundation for broader use of performance information in the budget process.

FINANCING

I-900 not only has substantially more funding allocated for performance auditing than HB-1064, it also has guaranteed funding, in contrast to HB 1064's legislature-allocated funding. The OFM estimated that I-900 would cost \$25 million for the 2007-2009 biennium, \$5 million more per year than estimated by the authors. Proponents argue that guaranteed funding will prevent the legislature from interfering with the audit process and insure program longevity.

The financial burden I-900 places on local agencies is unclear. Stan Finkelstien, executive director of the Association of Washington Cities, said that the \$17 million allocated to the SAO for 2005-2007 would barely cover audits of state agencies, suggesting local agencies could be billed for their performance audits. If this were the case, I-900 would force fiscally



strained agencies to come up with the time and money to prepare documents for the state's auditor. According to Finkelstien, local agencies are already the most accountable to the public (Shannon, 2005).

CONCLUSION

It is widely agreed that performance auditing is an effective means of saving money, improving efficiency and increasing transparency in state government. Voter approval of I-900 would give Washington the nation's most extensive performance auditing program.

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