



POLICY BRIEF

Guide to Initiative 900 **Reviewing Government through Performance Audits**

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Guide to Initiative 900

Reviewing Government through Performance Audits

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I. Introduction

Writer Victor Hugo once said that nothing is more powerful than an idea whose time has come. Though he spoke in another time and place, his words ring true now in Washington state.

In early May 2005, Governor Gregoire signed House Bill 1064 authorizing, for the first time, performance audits of state government agencies. Introduced by Rep. Mark Miloscia (D-Federal Way), the bill was one of the first to begin moving through the legislative process in the 2005 Session—a hint at the importance with which legislators viewed it.¹ On the same day the Session convened, Tim Eyman and supporters filed the text of Initiative 900, which would enact performance audits of state and local governments. The groundswell of legislative and citizen backing indicates the broad support gathering behind the idea of performance audits.

A performance audit looks at government programs to see whether agencies are using public money efficiently. The audits root out the cause of wasteful practices and measure a program's actual performance against its goals and objectives.

This Policy Brief summarizes Initiative 900, compares the Initiative and the current audit bill recently passed by the legislature, and discusses the differences between the two plans.

II. Background on State Spending and Audits

The Growth of State Government

Support for performance audits has been prompted by the rapid growth of state government in recent decades.

State legislators faced a serious budget “deficit” for the biennium starting in 2005. In March the state forecast a \$1.7 billion difference between revenue increases and planned increases in spending. Not content with the projected 7% increase in revenue generated by the economy's natural expansion, the legislature decided to raise taxes by \$450 million to finance a 12% increase in state spending. Rising revenue was far short of what lawmakers wanted to spend, based on promises they have made over the years. Without new revenue, they said, harsh

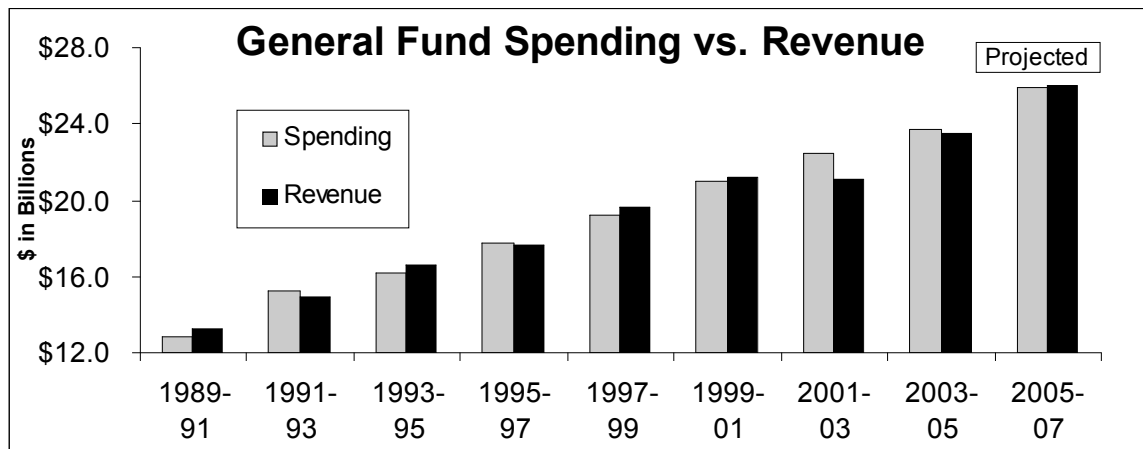
¹ House Bill 1064 was introduced to the House of Representatives on 12 January 2005. It passed the House 74 to 22 on 2 February, and passed the Senate 30 to 19 on 7 April. Governor Gregoire signed the bill on 11 May, and it took effect on 24 July 2005. For more information see www.WashingtonVotes.org/Legislation.aspx?ID=30986.

cuts would be needed. Only in the world of public budgeting is a revenue increase of \$1.7 billion called a “deficit,” and a reduction in the rate of spending increase called a “cut.”

Lawmakers continue to write state budgets with built-in deficits, thus guaranteeing a budget crisis in future years. In years when spending increases outpace revenue increases, lawmakers are likely to insist that another tax increase is necessary to support what they call a “maintenance level budget,” one that covers existing obligations but makes no new commitments. Spending increases are built into the budgets themselves. On top of that, lawmakers commonly add new funding for existing programs, and even create new programs that require yet more funding.

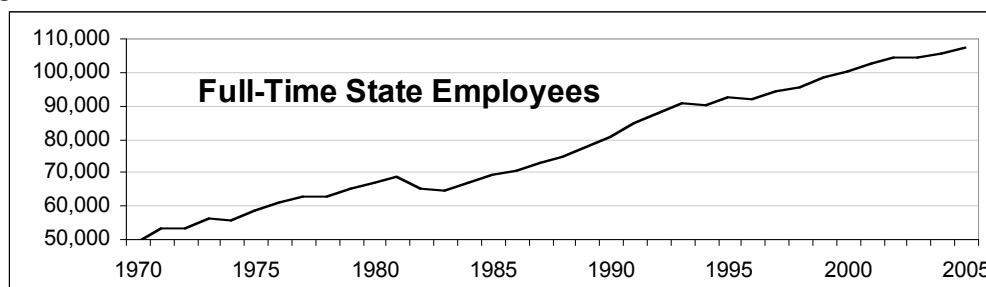
The continued increase in general fund tax revenue is never enough to satisfy a legislature seeking to spend more than projected revenues. Figure 1 illustrates the steady growth in state general fund revenue and spending, and that spending growth often outpaces revenue growth.²

Figure 1



Revenue and spending increase comparisons is only one ways to look at the growth of state government over the last few years. Another way is to look at the change in number of state employees. As figure 2 shows, the number of full-time state employees has grown steadily since the early 1970s, doubling to more than 100,000.

Figure 2



² Data for figure 1 from the Washington state Legislative Evaluation and Accountability Program, “Budget Archives.” See <http://leap.leg.wa.gov/>. (Accessed 8/05)

Today there are 17.6 state employees per 1,000 Washington residents. Between 1975 and 2005 the growth in the number of state employees outpaced the growth in state population by ten percent.³ Not only has the number of state employees grown, but the value of their compensation has grown as well. Figure 3 compares the 1996-2005 growth in state population, number of full-time employees, average salary and average total compensation (including health benefits).⁴

Figure 3

Year	Population	F/T Empl.	Avg. Salary	Avg. Total Comp.
1996	5,567,764	91,758.4	\$36,541	\$45,954
1997	5,663,763	93,608.3	\$36,950	\$46,303
1998	5,750,033	95,028.5	\$38,417	\$47,973
1999	5,830,835	97,906.9	\$38,858	\$48,708
2000	5,894,143	99,929.2	\$41,018	\$50,961
2001	5,974,910	102,042.5	\$42,778	\$53,436
2002	6,041,710	103,818.3	\$45,010	\$55,311
2003	6,098,300	104,262.8	\$45,907	\$56,854
2004	6,167,800	105,077.7	\$46,708	\$57,912
2005	6,256,400	106,754.1	\$47,379	\$59,546
Increase	12.4 %	16.3 %	29.7 %	29.6 %

In this context the call for performance audits is growing louder. Supporters of both the legislature’s plan and Initiative 900 agree citizens deserve the most “bang for their buck” in state spending. With a state that spends tens of billions of dollars a year and runs a “deficit,” even when natural economic growth adds money to state coffers, it is important to root out waste, inefficiency and unnecessary spending.

Audits in Washington

Before enactment of this year’s bill, the state had limited audit authority. The Joint Legislative Audit and Review Committee (JLARC) conducts some performance audits each year. Since 1990 JLARC has produced 140 audit reports with over 450 recommendations, which have yielded approximately \$500 million in savings.⁵ The quality of JLARC research is excellent, however it only audits specific programs as directed by the legislature, which significantly restricts its effectiveness. Audit assignments also face conflicts of interest because committee staff must scrutinize programs that legislators—their bosses—initially approved and wish to continue funding.

³ Washington state Office of Financial Management. See www.ofm.wa.gov.

⁴ Data for figures 2 and 3 is from the Washington state Office of Financial Management. See www.ofm.wa.gov.

⁵ From the Washington State Joint Legislative Audit and Review Committee (JLARC). See www1.leg.wa.gov/jlarc/.

In 1993, at the request of the independently-elected State Auditor, the legislature passed the Performance Based Government Act. This act moved the state towards the goal of requiring agencies to establish measurable goals in determining the effectiveness of their programs. The Act also gave the State Auditor limited discretion to conduct audits when requested and funded by the legislature. Until 1993, Washington was the only state in the nation that specifically prohibited the Auditor from conducting performance audits.⁶

During the 2001 Session the legislature appropriated \$300,000 for a pilot program to allow the State Auditor to conduct three performance audits of state agencies. Governor Gary Locke approved the funding, but vetoed the provision authorizing the actual program, even though it had passed the House and Senate by wide margins.⁷ During the 2002 Session, the Governor finally approved the three audits, but only one was to be conducted by the State Auditor: a review of the state's claims and benefits systems, comprising industrial insurance, food stamps and other programs.⁸ The Governor's Office of Financial Management was directed to perform the other two audits.

In addition to passing HB 1064, during the 2005 Session the legislature also passed a 9.5-cent per gallon gas tax increase.⁹ In order to obtain key Republican support for the gas tax increase, the legislature appropriated \$4 million for the State Auditor to contract out for performance audits of the Department of Transportation, Transportation Improvement Board, County Road Administrative Board, and the Traffic Safety Commission.

III. Description of Initiative 900

Initiative 900 proposes a different audit plan than what the legislature passed during the 2005 Session. Tim Eyman and the group "Voters Want More Choices" sponsor the initiative.¹⁰ This group has successfully ushered several initiatives through the elections process over the last few years. Between February and July 2005 the group gathered 311,858 signatures—almost 100,000 more than needed—and on July 28 the Secretary of State certified Initiative 900 for the November 2005 ballot. Below are the official descriptions.¹¹

⁶ From the Washington State Auditor's Office website, "Performance Measurement and Audit." See www.sao.wa.gov.

⁷ "State Audits Have Merit," editorial in *The Olympian*, Olympia, Washington, 23 November 2001.

⁸ 2002 Supplemental Operating Budget, passed in April 2002. In October 2002 the State Auditor published the "Claims and Benefits Performance Audit," with a detailed analysis of seven state systems: WorkFirst, food stamps, Medicaid, Basic Health, unemployment insurance, workers' compensation and vocational rehabilitation. The report grades each system and offers recommendations for improvement.

⁹ Senate Bill 6103 increased the gasoline tax by a total of 9.5 cents between 2005 and 2008, and directs the State Auditor to contract out for performance audits of transportation agencies. SB 6103 was introduced to the Senate on 4 April 2005. It passed the Senate 26 to 22 on 20 April, and passed the House 54 to 43 (on reconsideration after initial failure) on 24 April. Governor Gregoire signed the bill on 9 May. For more information see www.WashingtonVotes.org/Legislation.aspx?ID=38421.

¹⁰ See www.permanent-offense.org.

¹¹ See www.secstate.wa.gov.

Concise Description of Initiative 900

This measure would direct the state auditor to conduct performance audits of state and local governments, and dedicate 0.16% of the state's portion of the sales and use tax collections to fund these audits.

Official Summary as It Will Appear on the Ballot

This measure would direct the state auditor to conduct performance audits of state and local government agencies and entities, including executive, legislative, and judicial agencies. The audits would include reviews of the economy, efficiency, and effectiveness of each agency's policies, management, fiscal affairs, and operations. To fund the audits, 0.16% of the state's portion of sales and use tax collections would be placed in a new state treasury account and used only for performance audits.

If passed by voters, Initiative 900 would direct the State Auditor to conduct performance audits of all state and local government agencies, programs and accounts. It contains its own funding source, allocating 0.16% of state sales tax collections to a state treasury account dedicated to funding the audits. The funding is automatic and not subject to the legislative appropriation process. The State Auditor's office has sole control over the funds.

The State Auditor's office would begin formulating a work plan in December 2005, and all audits would be complete in eight to ten years. The Initiative gives the Auditor the discretion to contract out audits or perform them in-house.

The audits would examine the financial efficiency and effectiveness of state and local government agencies. The long-term goal would be to uncover any waste, inefficiency or unnecessary duplication of services and identify steps to resolve such problems. Businesses and other private-sector organizations routinely use outside performance and accountability evaluations to identify potential cost savings and find out whether the organization is achieving its goals.

IV. A Tale of Two Audits

The bill enacted by the legislature during the 2005 Session and the plan proposed by Initiative 900 offer two different approaches to auditing state government. The key differences are summarized here.

Differences at a Glance

Legislature’s Plan	Initiative 900
Authorizes the audit of state agencies and programs except transportation and court agencies.	Directs the audit of all state and local agencies and programs (there are more than 2000 governmental entities in Washington).
The State Auditor works with a Citizens Advisory Board (all voting members as well as the director of the Office of Financial Management are appointed by the Governor) to decide what will be audited. All audits will be contracted out.	The State Auditor’s office conducts the audits and may contract out at its discretion.
Audits are funded by legislative appropriation. Currently the maximum allowable amount is about \$2.8 million per biennium.	Audits are funded automatically from 0.16% of state sales tax collections. Currently the amount is about \$20 million per biennium.
Audited agency is solely responsible for implementing corrections from audit results.	State Auditor advises agencies on potential remedies, and legislature must consider audit findings during appropriations process. Justification must be provided for recommendations not implemented.
No official forum provided for receiving public comments on audit results.	Provides public hearings for soliciting public comment on audit results.

What gets audited?

Legislature’s Plan: All state agencies except transportation agencies and the judicial branch can be audited. Transportation agencies are the Department of Transportation, Washington State Patrol, Department of Licensing, Transportation Improvement Board, County Road Administrative Board, and Traffic Safety Commission. The Office of the Courts is encouraged but not required to perform audits. State institutions of higher education are also included in this audit plan. The State Auditor can oversee audits of local governments, if they make a request and provide their own funding.

Initiative 900: All state programs, agencies and accounts, including transportation agencies and the courts, shall be audited. All local governments and their programs, agencies and accounts, as well as all state and local education agencies, shall also be audited.

Who conducts the audits?

Legislature’s Plan: The State Auditor is *required* to contract out for and oversee audits. The Auditor must coordinate with a Citizen Advisory Board and JLARC.

Initiative 900: The State Auditor will conduct all audits, but *may* contract out for audits at his discretion.

How are the audits funded?

Legislature's Plan: The legislature must appropriate funding for the audits every two years. The funding cannot exceed two one-hundredths of one percent of total state general fund appropriation. The maximum amount available for audits is about \$2.8 million per biennium, and will rise as the state budget grows.

Initiative 900: 0.16% of the state sales tax collections would be dedicated to funding the audits. The State Auditor would be the sole controller of the funds. No legislative appropriation is required—funding would be automatic. The funding amount would be about \$20 million per biennium, and would rise as sales tax collections increase.

What is done with the audit results?

Legislature's Plan: Responsibility for follow-up and corrective action rests with the audited agency. The audited agency's plan for addressing each audit finding and recommendation will be included in the final audit report. If the audited agency does not agree with the audit findings or believes action is not required, the action plan will include an explanation and specific reasons.

Initiative 900: The Initiative directs the State Auditor to instruct and advise audited agencies on step-by-step remedies to whatever ineffectiveness and inefficiency is discovered. Also, the legislature must consider the State Auditor's reports on specific agencies in connection with the appropriations process. JLARC would submit a report each year detailing the implementation of corrective measures. Justification must be provided for State Auditor recommendations not implemented.

What Will the Audits Examine?

Legislature's Plan – the audits *may* look at:¹²

1. Identifying programs and services that can be eliminated, reduced, consolidated or enhanced;
2. Identifying funding sources to the state agency, to programs and to services that can be eliminated, reduced, consolidated or enhanced;
3. Analyzing gaps and overlaps in programs and services and providing recommendations for improving, dropping, blending, or separating functions to correct gaps or overlaps;

¹² From Engrossed Substitute House Bill 1064 of the 2005 Legislative Session, now RCW 43.09. See also www.WashingtonVotes.org for bill information.

4. Making recommendations for pooling information technology systems used within the state agency, and evaluating information processing and telecommunications policy, organization, and management;
5. Analyzing the roles and functions of the state agency, its programs, and its services and their compliance with statutory authority and recommendations for eliminating or changing those roles and functions and ensuring compliance with statutory authority;
6. Making recommendations for eliminating or changing laws and rules as may be necessary to ensure that the agency carry out reasonably and properly its functions;
7. Verifying the reliability and validity of agency performance data, self-assessments, and performance measurement systems as required under RCW 43.88.090;
8. Identifying potential cost savings in the state agency, its programs, and its services;
9. Identifying best practices;
10. Evaluating planning, budgeting, and program evaluation policies and practices;
11. Evaluating personnel systems operation and management;
12. Evaluating state purchasing operations and management policies and practices;
13. Evaluating organizational structure and staffing levels, particularly in terms of the ratio of managers and supervisors to non-management personnel.

I-900 – the audits *shall* look at:¹³

1. Identifying cost savings;
2. Identifying services that can be reduced or eliminated;
3. Identifying programs or services that can be transferred to the private sector;
4. Analyzing gaps or overlaps in programs or services and making recommendations to correct gaps or overlaps;
5. Studying the feasibility of pooling information technology systems within the department;
6. Analyzing the roles and functions of the department, and make recommendations to change or eliminate departmental roles or functions;

¹³ From Initiative 900. See www.secstate.wa.gov.

7. Making recommendations for statutory or regulatory changes that may be necessary for the department to properly carry out its functions;
8. Analyzing departmental performance data, performance measures, and self-assessment systems;
9. Identifying best practices.

V. Differences between the Legislature’s Plan and Initiative 900

While advocates of both Initiative 900 and the legislature’s plan say their proposals seek accountability, the plans are by no means identical. The central differences between the two are purpose, scope and authority.

Purpose of the Proposals

While the legislature’s plan *authorized* performance audits, the Initiative would *require* performance audits. Initiative 900 says “the state auditor shall conduct independent, comprehensive performance audits of state government.”¹⁴ The legislature’s plan says “the state auditor is authorized to contract for and oversee performance audits.”¹⁵ While on paper there is a distinction, in practice this distinction may not have any impact on how audits are actually conducted.

Legal debate abounds on the practical definition of “shall” and whether or not it carries with it compulsion or option. The Washington State Senate Committee Services office, in its official summary of Initiative 900, says “Initiative 900 requires the State Auditor to perform audits of state and local government agencies.” As noted earlier, the ballot summary says that the “measure would direct the state auditor to conduct performance audits.”

Scope of the Audits

Since Initiative 900 proposes to audit agencies that the legislature’s plan does not include—namely transportation agencies, court offices, the legislature, and local governments—the potential for discovering inefficiencies and waste across all government agencies is much greater under the Initiative.¹⁶ However, if Initiative 900 passes and the Auditor seeks to audit the courts or the legislature, there could be a legal challenge in the Washington State Supreme Court over this issue. The challenge would hinge on the idea of separation of powers and the

¹⁴ Ibid.

¹⁵ See Section 7 of HB 1064 at www.WashingtonVotes.org for bill information.

¹⁶ As noted earlier, the legislature did provide for audits of transportation agencies in Senate Bill 6103. The difference is that under the legislature’s audit plan, audits of transportation agencies must be contracted out, whereas under Initiative 900, the State Auditor can conduct the audits.

independence of a branch of government. The executive branch, however, can oversee how funds are spent without fettering the courts' judicial work or the legislature's work.

The legislature's plan lists 13 core areas that the audits *may* examine, while Initiative 900 lists nine areas that the audits *shall* examine. Ultimately, audits contracted under the legislature's plan may or may not consider all the points allowed by statute. Initiative 900, however, makes it clear that state and local agencies must be evaluated based on the points listed. This seemingly small difference in language could have a potentially large impact on audit findings.

The legislature's plan allows auditors to consider organizational structure and staffing levels, particularly the ratio of management personnel to non-management personnel. Initiative 900 does not call for such analysis. At the same time, the Initiative would cover areas that the legislature's plan does not. For example, the Initiative would require audits to identify programs and services that can be transferred to the private sector. The legislature's plan does not consider that factor.

Authority over the Audits

Initiative 900 places responsibility for audits solely in the hands of someone directly accountable to the voters—the State Auditor. The fact that he would also be the sole controller of audit funding lends further weight to the primacy of his discretion. Because the legislature's plan *requires* that the audits be contracted out and makes the Auditor a non-voting member of an appointed board, the Auditor has less authority. Under the legislature's plan the Board steers the audits. The law also states that, in performance audits of state government, the Board and the State Auditor must collaborate with JLARC.¹⁷

HB 1064, the bill that created the Citizens Advisory Board, is vague as to the limits of the Board's authority and responsibility. The bill is unclear as to where the State Auditor's authority ends and the Board's begins, and vice-versa. Collaborative language abounds, but ultimately the legislature's plan does not give the State Auditor the independence of discretion that Initiative 900 provides.

Because the legislature's plan funds the audits by legislative appropriation, the legislature and the Governor can exercise tremendous influence over the audits and their scope, or potentially kill them before they even get off the ground. Shifting political winds could influence which agencies or programs are audited. This has happened before with JLARC. During the 2004 Session, the legislature's final appropriations bill contained funding for JLARC to audit a handful of state programs. Governor Locke line-item vetoed that funding from the bill.¹⁸ Under the legislature's audit plan, funding could be limited in the same way. In contrast, Initiative 900 creates a dedicated account, with which the legislature and the Governor would have a much more difficult time tampering.

¹⁷ See section 5 of HB 1064 from the 2005 Session at www.WashingtonVotes.org.

¹⁸ See Governor Locke's veto message for HB 2459 (2004 Session) at www.ofm.wa.gov/budget/legbudgets/04opveto.pdf.

Initiative supporters promote their measure as an “independent performance audits” plan. They say that when compared to the legislature’s plan, Initiative 900 would be more “independent” in the sense that the audits are removed from the political process. The Initiative is worded so as to prevent legislative interference with the audits: “No legislative body, officeholder, or employee may impede or restrict the authority or the actions of the state auditor to conduct independent, comprehensive performance audits.”¹⁹

Under the legislature’s audit plan, if the Board develops a work plan that duplicates efforts of JLARC, statute requires the Board to defer to JLARC’s plan.²⁰ This creates the potential for conflict if the Board and the State Auditor propose to include in the performance audits agencies or programs that JLARC already audits.

Ultimately, the Governor and the legislature are much more involved in audits under the legislature’s plan than they would be under Initiative 900. Supporters of the legislature’s plan say that involvement by the Governor and legislature ensures that new audits do not duplicate the many other audits already allowed by law, and filters out those agencies and programs unlikely to benefit from audits. The Initiative’s supporters, however, argue that truly independent audits that are as far removed from the legislature as possible are essential.

Acting on the Audit Results

Acting on audit findings is another area where the legislature’s plan and Initiative 900 diverge. The legislature’s plan places responsibility for implementing audit recommendations with the audited agency. Initiative 900, however, would charge the State Auditor with helping guide agencies in correcting problems. It would also require the legislature to consider problem resolution during the appropriations process for that agency. Based on this, critics of the legislature’s audit plan say the Initiative would provide stronger methods of following through with audit results and recommendations.

Initiative 900 would allow the State Auditor to contract out for audits at his discretion, while the legislature’s audit plan requires that all audits be contracted out. The Initiative’s flexibility allows the Auditor to utilize the expertise within his own office, recruit new personnel, or make use of outside resources as he sees fit.

Critics of Initiative 900 have said that it requires *every* state and local agency to be audited *every* year. The Initiative does say “the people encourage the state auditor to aggressively pursue the largest, costliest governmental entities first but to pursue all governmental entities in due course.”²¹ It does not say that every government entity has to be audited every year. The funding mechanism combined with the Initiative’s language indicates the State Auditor will likely prioritize what is to be audited, audit until funds are depleted for that year, then continue the next year where the plan left off the previous year.

¹⁹ From the text of Initiative 900.

²⁰ See section 5 of ESHB 1064 from the 2005 Session at www.WashingtonVotes.org.

²¹ From the text of Initiative 900.

While both the legislature's plan and Initiative 900 provide for audit results to be released to the public, only Initiative 900 would provide an official venue for soliciting public comment on audit results. The Initiative states that "on or before thirty days after the performance audit is made public, the corresponding legislative body or legislative bodies shall hold at least one public hearing to consider the findings of the audit and shall receive comments from the public."²² The legislature's audit plan does not contain such a provision.

The differences between the legislature's plan and Initiative 900 have not escaped the attention of elected officials. State Auditor Brian Sonntag is on record saying that Initiative 900 is a "bigger, stronger, more powerful performance audit program" than the legislature's plan. Sonntag mentioned that his office had offered draft legislation authorizing performance audits without a citizen's board or restrictions, but that the legislature's plan under HB 1064 carried the day. "Legislation that we offered, our draft legislation, didn't have an oversight board, didn't have the restrictions as outlined, and so we would prefer that it didn't."²³

At the same time, Sonntag was not wholly disappointed with the legislature's audit plan. "After watching it [the legislative process of authorizing performance audits] for 12 years, I'm surprised they actually did pass something as good as they did." "Is it a perfect bill? No. But is it something that we can probably put into effect and work with and try to improve? You bet."²⁴ Sonntag's comments indicate he is prepared to implement the legislature's plan or Initiative 900, depending on the decision of the voters.

What Happens to the Legislature's Plan if I-900 Passes?

The legislature's audit plan and Initiative 900 are not contradictory. They differ in scope, authority and funding, but one does not invalidate the other. If Initiative 900 passes, performance audits would include all state and local government programs, the State Auditor would direct the audits and have sole discretion as to which audits will be contracted out, and he would have more funding at his disposal. The funding appropriated in the legislature's audit plan could be added to the Initiative's funding. The Auditor's office will have the advantage of already moving forward with the legislature's audit plan and the transportation audits under SB 6103. The Initiative's directives would simply add to the momentum created by the existing performance audits program.

One area that may create confusion is the Citizens Advisory Board. Initiative 900 neither calls for such a board nor does it disband one that already exists. It may be an issue for the courts to work out, or the legislature may move to repeal its plan to avoid any conflict. When a conflict occurs in the law, most often the recent law replaces older law. In this case, if Initiative 900 passes in November, its provisions would prevail over the legislature's plan.

²² Ibid.

²³ David Ammons, interview with Brian Sonntag, "Inside Olympia" program aired on TVWashington, 2 June 2005. Transcript is available from Washington Policy Center, and a complete audio recording of the program is available online at www.tvw.org.

²⁴ Ibid.

Another possibility is that only those audits funded by the mechanism built into HB 1064 would be subject to oversight from the Citizens Advisory Board. The State Auditor would have direct authority over audits funded from the treasury account that Initiative 900 would establish. *The Olympian* ran a story in September 2005 saying “Sonntag said he can work with both [the legislature’s plan and Initiative 900]—if voters approve I-900, which gives him direct powers to decide which agencies to audit. He said the citizen advisory board created by HB 1064 would govern only those audits done using money that the legislation provides.”²⁵

Arguments against Initiative 900

The “No on I-900” committee consists of representatives from local governments and a labor union.²⁶ Opponents of the Initiative list four main points as reasons to vote against it.²⁷ Their points are below, along with specific responses from Initiative 900 supporters.

1. *Local citizens and their locally elected officials should establish their own goals and priorities, not Olympia.*

I-900 supporters respond: While certain goals and priorities may be tailored to a specific locality, overall fiscal soundness and efficiency can be gauged by general standards that the State Auditor would use. Moreover, while some local governments conduct their own performance reviews, outside independent reviews are necessary for a fair appraisal that is free of inside political influence.

2. *Local governments will have to spend scarce staff time and local taxpayer dollars to collect data for the audits.*

I-900 supporters respond: Local governments and local taxing entities must be accountable for spending taxpayer dollars. Local governments tax and spend, and the people have a right to expect accountability from their local governments as they do from state government.

3. *One size does not fit all. There are over 2,000 units of local government, from large metropolitan cities and counties to small rural mosquito control and irrigation districts. They all have different purposes and responsibilities. Is it really appropriate to compare a unit of government of 300 to a unit of government of 3,000?*

²⁵ Brad Shannon, “Eyman effort has nominal resistance,” *The Olympian*, 15 September 2005.

²⁶ Chris Dugovich, Washington Council of County & City Employees.

²⁷ Pam Carter, President, Association of Washington Cities; Dr. Richard Johnson, Superintendent, Okanogan School District; Bob Beerbower, Grays Harbor County Commissioner; Mary Place, Yakima City Council; Steven Jenkins, Mayor, City of Bridgeport. Names and positions taken from the Washington State Voter’s Pamphlet statement against Initiative 900, from the Washington Secretary of State as of August 2005. Explanations of I-900 supporters’ positions taken from various mailings and statements presented in the last few months and available from Washington Policy Center.

I-900 supporters respond: Initiative 900 would not require the State Auditor to compare one unit of government to another. Local governments would be evaluated on an individual, case-by-case basis as determined by the State Auditor's office.

4. *Initiative 900 duplicates existing audits and is too expensive.*

I-900 supporters respond: While the state legislature did pass performance audits measures for state agencies and transportation agencies during the 2005 Session, those measures did not go far enough in guaranteeing independent performance and accountability reviews. The Initiative would not add another layer of government on top of existing audits, but would supplant or integrate with audit plans already enacted into law.

Ten million dollars per year, Initiative supporters say, is not too much money to spend in ensuring that governments spending a combined \$40 billion per year are doing so efficiently and effectively.

Initiative 900 supporters also point out that the prime sponsor of the legislature's audit plan, Rep. Mark Miloscia, has indicated that he supports the Initiative. The Initiative and the legislature's plan under HB 1064, he says, fill in each other's gaps and, when combined together, provide for a stronger audit program than either individually.²⁸

VI. Performance Audits in Other States

Colorado Governor Bill Owens once spoke of the "federal laboratory of experience that the 50 states give us."²⁹ One of the many advantages of the American government structure is that each state can benefit from the experience of other states. A state can learn which policies work and which do not, all the while studying the facts and weighing the evidence in discerning how to address certain problems.

In other states, independent performance audits have improved service and reduced cost by identifying waste and inefficiency.

- **Colorado** – Audits completed under the New Century Colorado program during 1999-2000 resulted in more than \$41 million in savings.
- **Texas** – Performance audits conducted under the Texan Performance Review, e-Texas, and Texas Sunset Commission programs have saved the state more than \$13 billion since 1991. Texas's school performance review program has identified net savings of more than \$600 million since 1991.

²⁸ From correspondence between Washington Policy Center analyst John Barnes and Rep. Mark Miloscia on 9 September 2005.

²⁹ Colorado Governor Bill Owens, from his address at Washington Policy Center's 2004 annual dinner, 29 September 2004. See www.washingtonpolicy.org for the complete transcript of his address.

- **Pennsylvania** – The Impact Commission audits have saved the state \$600 million since 1995.
- **Kentucky** – Between 1991 and 2001, the Empower Kentucky audit programs saved the state \$140 million annually.
- **New Mexico** – A top-to-bottom review of all state operations saved the state \$74 million in the 2004-2005 fiscal year and is projected to save \$443 million over five years.³⁰
- **California** – The California Performance Review program has made 1,200 recommendations that could save the state \$32 billion over the next five years.³¹

The evidence shows that performance audits are a proven way to save taxpayer money, and that the benefits of audits come in both the short and long term.³²

When writing the 2003-05 biennial budget, the Washington legislature faced a \$2.3 billion “deficit.” Lawmakers faced one again when writing the 2005-07 budget. In order to make revenue match their planned spending increases, lawmakers increased taxes by about \$500 million. Numbers from other states indicate that in Washington audits could mean the difference between a tax increase and no tax increase.

Given the structural budget problem in Washington, future shortfalls are likely. Other states’ fiscal savings from audits have been larger than Washington’s deficit alone. Judging by the fiscal savings resulting from audits in other states, Washington would likely benefit from performance audits.

VII. Conclusion

If combined with other reforms, regular performance audits of state government would help establish an innovative culture that rewards productivity and efficiency. It is important to recognize the positive impact of regular oversight. Not only would poor performance be identified and ended, but previously unpublished success stories would become a part of the public record, allowing state managers and workers to establish credibility with voters, something that today is severely lacking.

Performance audits are not a cure-all for the ills facing state government. But when lawmakers are continually asking the people to pay a larger portion of their income in taxes, citizens certainly have a right to expect accountability in how their dollars are spent.

³⁰ “Quick Summaries of Other Performance Audits,” from the Washington State Auditor, September 2005.

³¹ From the fourth volume of the California Performance Review, 2005. See <http://cr.ca.gov>.

³² Information on audits in other states (except New Mexico and California) is from William D. Eggers, “Show Me the Money: Budget-Cutting for Cash-Strapped States,” American Legislative Exchange Council and the Center for Civic Innovation at the Manhattan Institute, 2002, p. 15. See www.alec.org/meSWFiles/pdf/ShowMeTheMoney2.pdf.

In *Alice in Wonderland*, Alice asks the Cheshire Cat “which road do I take?” “Where do you want to go?” was his response. “I don’t know,” Alice answered. “Then,” said the cat, “it doesn’t matter.” In her surreal world, little made sense to Alice and her choices did not appear to matter. The world of government budgeting, where the state spends more money in one day than most taxpayers will see in a lifetime, can seem equally surreal.

But for the taxpayers who foot the bill for government spending, this is the real world, and unlike Alice, Washingtonians know what they want: accountability in government. Like Alice, though, Washingtonians face two choices. The strong public support behind both the legislature’s audit plan *and* Initiative 900 shows it does matter which road is taken. Ultimately, both proposals claim the same destination, though with different twists and turns along the way. In November, voters will decide if the state will follow one or both roads.

Appendix A

Comparing the Audit Process under the Legislature's Plan and I-900

Legislature's Plan

The state creates a ten-member Citizen Advisory Board to coordinate audits. The Board consists of the State Auditor, the head of JLARC, and the director of the Office of Financial Management (all three are non-voting members), as well as four citizen members nominated by each of the legislature's caucuses and selected by the Governor, and three citizen members appointed by the Governor.



The Citizen Advisory Board establishes criteria for performance audits. These criteria shall include, at a minimum, the auditing standards of the United States Government Accountability Office.



Using criteria established by the Citizen Advisory Board, the State Auditor contracts out for a statewide performance review to be completed as a preliminary to a draft work plan for conducting performance audits. This performance review is intended to identify agencies and programs most likely to benefit from performance audits.



The Citizen Advisory Board and the State Auditor develop the draft work plan for performance audits based on input from citizens, state employees, the legislature, and JLARC. The draft can include a list of agencies, programs, or systems to be audited and a timeline decided by the Board based on a number of factors including risk, importance, and citizen concerns.



Before adopting the final work plan, the Citizen Advisory Board consults with the head of JLARC and all other appropriate oversight and audit entities to coordinate work plans. If both a JLARC audit plan and the Board's audit plan overlap, the Board will defer to the JLARC work plan.



The State Auditor solicits comments on preliminary performance audit reports from the audited agency, the Governor's office, the Office of Financial Management, the Citizen Advisory Board, the appropriate legislative committees, and JLARC. All comments will be incorporated into the final performance audit report.



The final audit report is released to the Governor, the legislature, JLARC, and the citizens of

Washington. The final report includes the audit’s objectives, scope, methodology, and results, plus the findings and recommendations.

Initiative 900

The State Auditor may, at any time, conduct a performance audit to determine not only the efficiency, but also the effectiveness, of any state and local government agency, account, or program. The State Auditor *may* contract out the audits. Priority can be given to larger or costlier agencies at the Auditor’s discretion. The audits will be conducted in accordance with the United States General Accounting Office government auditing standards.



Within 30 days after the completion of each audit (or follow-up audit), the audit report will be made available to the public. Within 30 days after the audit is made public, the corresponding legislative body will hold at least one public hearing to consider the findings of the audit and receive comments from the public.



To the greatest extent possible, the State Auditor will instruct and advise the appropriate governmental body on a step-by-step remedy to whatever ineffectiveness, inefficiency, or unnecessary duplication is discovered in the audited entity. For performance audits of state government, the legislature must consider the State Auditor reports in connection with the legislative appropriations process.



JLARC will submit a report on July 1st of each year detailing the status of the legislative implementation of the State Auditor’s recommendations. Justification must be provided for recommendations not implemented.



The State Auditor may, when considered necessary, conduct follow-up performance audits.

About the Author

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