

Performance Audits

Overview

The State Auditor's Office (SAO) conducts regular financial audits of state and local government agencies. These audits focus on an agency's accounting controls and statutory compliance with expenditure of taxpayer funds. When the SAO finds problems in a financial audit, a "findings" letter is issued outlining the problems and suggesting solutions. For example, for 21 years, the SAO issued a finding to the Washington State Department of Transportation (WSDOT) for not having adequate controls in place for the collection of ferry fares. WSDOT implemented an electronic fare collection system in late 2007, and the SAO, did not make a finding in the department's financial audit in 2008.

Performance audits, on the other hand, focus on the operational effectiveness and efficiency of an organization or program. While some define performance audits as only looking at how efficiently an agency is performing legislatively-assigned tasks, others believe that performance audits should also look at whether a government agency should be performing certain tasks at all, or whether the private sector could perform the tasks more efficiently.

Prior to 2005, performance audits were conducted through the Joint Legislative Audit and Review Committee (JLARC) at the direction of the Legislature. Special legislation or budget provisos often provided for such audits. But neither the State Auditor nor JLARC were required to conduct regular performance audits of state agencies.

Before Initiative 900 and special legislation for transportation agencies, eight performance audits (seven since 1998) were conducted on the Department of Licensing (DOL); Washington State Patrol (WSP); and WSDOT. All of the performance audits had recommendations to improve the efficiency and effectiveness of the agency and/or programs. Many (but not all) of the recommendations were implemented.

Initiative 900

In 2005, voters approved Initiative 900 with a 56 percent "yes" vote. This measure established a program of performance audits with the SAO. The key features of I-900:

- Requires the State Auditor to conduct independent, comprehensive performance audits of state and local government.
- Dedicates 0.16 percent of state sales and use tax revenues to pay for the audits deposited in the Performance Audits of Government Fund. Forecasted revenues for the fund are about \$13.5 million in FY 2009.
- Requires each performance audit to include nine elements: (1) identification of cost savings; (2) identification of services that can be reduced or eliminated; (3) identification of programs or services that can be transferred to the private sector; (4) analysis of gaps or overlaps in programs or services and recommendations to correct gaps or overlaps; (5) feasibility of pooling information

technology systems within the department; (6) analysis of the roles and functions of the department, and recommendations to change or eliminate departmental roles or functions; (7) recommendations for statutory or regulatory changes that may be necessary for the department to properly carry out its functions; (8) analysis of departmental performance data, performance measures, and self-assessment systems; and (9) identification of best practices.

- Requires a public notification and hearing process on audit recommendations as well as directives for OFM and the SAO to monitor implementation of audit recommendations.

As of May 2008, the SAO has released 10 performance audits (4 of those pursuant to separate legislation for transportation agencies discussed further below) with 7 additional audits expected to be released by the end of 2008. The 10 audits cost about \$9.1 million, made 454 recommendations, and identified \$240 million in one-time and long-term potential cost savings over five years. The audit of traffic in congestion in Central Puget Sound identified \$3 billion in economic impacts to citizens and businesses if all audit recommendations are implemented.

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As part of the 9.5 cent gas tax increase in 2005, the Legislature included language authorizing the SAO to conduct performance audits of transportation-related agencies. This authority was enacted prior to passage of I-900, but contained substantively the same process and directives. The Legislature also appropriated \$4 million from the 9.5 cent gas tax revenue to the SAO to conduct these performance audits. Because of an attempt to repeal the gas tax via I-912 that same year, the SAO held off on conducting transportation performance audits pending the outcome. (The measure was defeated by voters and the 9.5 cent gas tax increases remained in place).

In 2006 the Legislature codified the appropriation to the SAO for transportation performance audits. From mid-2006 through the end of 2007, the SAO conducted four audits of WSDOT:

- Washington State Ferries (10 recommendations; \$50.2 million potential cost savings)
- Managing and Reducing Congestion in Puget Sound (22 recommendations; \$3 billion in economic impacts)
- WSDOT Administration and Overhead (11 recommendations; \$18.1 million potential cost savings)
- WSDOT Highway Maintenance and Construction Management (34 recommendations; \$41.9 million potential cost savings)

The SAO used the entire \$4 million appropriation for the four audits and identified \$110.2 million in total potential cost savings over the next five-years. The SAO plans to follow-up with WSDOT on implementation of audit recommendations.