



STATE OF WASHINGTON

December 10, 2010

The Honorable Brian Sonntag
Washington State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Dear Auditor Sonntag:

Thank you for this opportunity to formally respond to the performance audit of the Department of Licensing's Master License Service (MLS) program. Like Governor Gregoire, we strongly support the use of performance audits as an important tool to improve state government.

The mission of the Master License Service program is to provide businesses with convenient one-stop licensing. Over the years, this service has been recognized as a model for other states. We appreciate that the audit report acknowledges that by working with our state agency and city partners, MLS has streamlined and simplified business licensing for many Washington businesses.

The report identified areas where the program has improved, and acknowledges the success of past expansion efforts. Even with its significant accomplishments, we recognize that the program has reached a level of maturity and that it would benefit from revisiting expansion plans and other operational processes. The audit report identifies short-term and long-term opportunities for serving businesses even better. As the Department of Licensing develops its expansion plan, it will build on the report's recommendations and fully evaluate the impacts of adding specific licenses. Given the current economic conditions, we must ensure that expansion efforts can be achieved within available resources, both for our agencies and for our state agency and city partners.

Enclosed is a joint audit response from the Department of Licensing and the Office of Financial Management and an action plan for addressing issues identified in the audit report. We will report our progress in completing these action items through the Governor's Government Management Accountability and Performance (GMAP) process.

Sincerely,


Liz Luce, Director
Department of Licensing


Marty Brown, Director
Office of Financial Management

Enclosure

cc: Jay Manning, Chief of Staff, Office of the Governor
Jill Satran, Deputy Chief of Staff, Office of the Governor
Wendy Korthuis-Smith, Governor's Office of Accountability & Performance
Kimberly Cregeur, Governor's Office of Accountability & Performance



**Official Response to the Performance Audit of
the Master License Service Program
from the Department of Licensing and Office of Financial Management
December 13, 2010**

The Department of Licensing (DOL) and Office of Financial Management (OFM) submit this coordinated response to the performance audit of the Master License Service (MLS). While MLS is administered by DOL, OFM appreciates the opportunity to respond to performance audits to provide perspective on potential statewide issues, such as policy, performance management, budget, accounting, and information technology. This document is in response to the final draft audit report delivered on December 2, 2010.

Issue 1: The MLS has achieved many of its legislative goals; however, many businesses still don't receive one-stop service.

Department of Licensing Response:

Since its inception, the Master License Service program has continued to expand its partnerships with state agencies and, more recently, with cities. As noted in the report, the program had 33 city partners as of June 30, 2010, and will grow to 43 city partners by December 2010. This steady expansion has furthered the concept of one-stop business licensing for a growing number of businesses.

While many businesses enjoy the benefits of one-stop licensing, the Department agrees that MLS can continue to expand to represent more state programs and general city business licenses. MLS needs to evaluate new expansion opportunities to ensure cost-effective and meaningful one-stop licensing. These opportunities exist with both current and new partners.

Office of Financial Management Response:

We are pleased that the report found that MLS has streamlined business licensing, reduced duplicative requirements, increased administrative efficiencies and cost savings, reduced licensing backlogs, increased business compliance with licensing requirements, and increased revenue. We support expanding the program, but caution that any expansion must occur within available resources for both DOL and other agencies.

Issue 2: The MLS lacks a long term expansion plan that aligns with its financial resources.

Department of Licensing Response:

The Department agrees that MLS would benefit from a more formal, strategic expansion plan. As a mature program, MLS has gone through various stages of growth and evolution. Most recently, there was an opportunity for MLS to further simplify the business licensing process by partnering with cities. Because cities use similar processes to register businesses, it made sense to develop a city partnership model that could be easily applied to a number of cities. This approach was supported by the Legislature with both a statutory change and additional spending authority. The program has been focusing on creating city-state partnerships with ongoing plans to add new cities.

Outreach efforts were also increased to market the service to cities and state agencies. With continued expansion, a changing operational environment (that includes available technology), and the evolution of current and future MLS partners' business needs, it would be beneficial to develop a strategic expansion plan to help guide the Department's efforts. A strategic expansion plan would incorporate the use of additional performance and statistical data, financial considerations, and customer and partner input.

The Department agrees with the need for an updated, overhead cost allocation study. It has already begun to create a new cost allocation model that is targeted for completion before the end of the current biennium. This effort is being led by the Department's Office of Budget & Economic Analysis.

The Department also agrees that as a self-supporting, fee-based program, MLS must be financially solvent to continue its operations. Toward that end, the program monitors spending on a monthly basis and updates revenue forecasts at least quarterly. In this process, various scenarios are anticipated which include budget-driven projections, as well as current service-level projections. Because fees are set in statute, the Department has proposed legislation for the 2011 session to establish a fee cap with the flexibility to establish lower fees in rule if warranted. If approved, this would be the first fee increase for MLS in 18 years.

Action Steps and Timeframe:

- 1) Develop a formal, five-year strategic expansion plan for the MLS program. (Complete by December 2011.)
- 2) Incorporate MLS performance measures into the Governor's GMAP report on Economic Vitality. (Completed.)
- 3) Conduct a comprehensive study to re-evaluate overhead cost allocations within the Department. (In progress. Complete by June 2011.)
- 4) Propose legislation to increase Master License Service fees. (Completed.)

Office of Financial Management Response:

Although we agree that a strategic expansion plan is advisable, we do not believe it is appropriate to re-establish an extensive advisory committee. In keeping with Executive Orders 09-02 and 09-08, DOL would use more cost-effective ways to appropriately involve stakeholders as its strategic plan is developed.

DOL has begun to report performance measures for MLS as part of the Governor's GMAP report for Economic Vitality. These measures include the percentage of business applicants filing their applications online.

Issue 3: The MLS has short-term opportunities to add licenses and streamline service.

Department of Licensing Response:

Expanding MLS to provide one-stop business licensing remains the mission of the program. The Department will continue to pursue opportunities to increase the number of businesses that can exclusively use MLS for business licensing. Items that are easy to implement should be pursued in the short term while the strategic expansion plan is being developed. While current expansion efforts are primarily targeted to adding new city partners, other expansion opportunities with current partners can be revisited and reviewed, including the licenses mentioned in the report.

Cost-efficient and effective services are a goal of the program and an essential component of conducting business. Toward that end, MLS has steadily pursued program improvements. Major improvements have included expansion of the Master Application for the number of license applications and renewals available online and the pursuit of payment options for filing electronic applications. These efforts have resulted in steady growth in the number of Internet transactions. However, continued emphasis on expanding cost-effective payment options and improving Internet services are top priorities, as reflected in the Business and Professions Division's strategic business plan.

The Department also believes that ongoing improvement efforts are an essential part of doing business, and agrees that they should be pursued. However, these efforts need to be prioritized and implemented based on need, impact, results, and available resources. The priorities must be balanced with the need to develop a strategic expansion plan.

One recommendation is to streamline the online process for businesses with multiple locations. Allowing one online payment by a business with multiple locations is already identified as a priority initiative in the Division's strategic plan. Further evaluation is needed on how businesses file applications and renewals for multiple locations.

Another recommendation is to resolve data inconsistencies. The Department agrees that having data match initially is ideal. Historically, the amount of effort to ensure consistent and accurate data has been deemed minimal, especially when compared with the benefit to customers and partners. The need for process changes will be reviewed, discussed, prioritized, and implemented as part of ongoing operational efforts that include providing ongoing services to businesses and existing partners.

Action Steps and Timeframe:

- 1) Follow through on existing expansion plans for new partnerships with state agencies and cities. (Complete by January 2012.)
- 2) Review MLS statute, determine if barriers exist for expanding service, and propose legislation as needed. (Complete by August 2011.)
- 3) Review Department's priorities for implementation of electronic payment options. (Complete by August 2011.)
- 4) Review and prioritize existing requests for system changes to allow for more online filings of original applications and renewals. (Complete by August 2011.)

Office of Financial Management Response:

Continuing to expand MLS is a worthwhile goal for DOL, because the program has streamlined licensing for businesses and resulted in reduced administrative costs for participants. However, new efforts to expand MLS must be balanced with the realities of the current budget. Proposals to add licenses and further streamline services must be accomplished with reduced resources. Before choosing additional state licenses to incorporate in the program, DOL would need to establish criteria to determine the cost-effectiveness of adding each license. For example, it would be challenging to add licenses for building contractors, due to additional statutory requirements for these contractors and costly programming changes to the Department of Labor & Industries' computer systems.

In July 2010, OFM issued guidance regarding the use of the automated clearing house (ACH) for e-commerce. ACH is the preferred method for agencies to accept funds electronically. This is generally the least expensive method, and it works well for internet applications. OFM will work with the Department of Licensing and the Office of the State Treasurer to evaluate the feasibility of using ACH as an alternative to credit and debit card payments with MLS.

Action Steps and Timeframe:

- 5) Work with DOL and the Office of the State Treasurer to explore the feasibility of using automated clearing house (ACH) transactions for MLS payments. (Complete by June 2011.)