

STATE AUDITOR'S OFFICE PERFORMANCE AUDIT

Department of Licensing Master License Service

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TABLE OF CONTENTS

EXECUTIVE SUMMARY.....3

INTRODUCTION6

AUDIT RESULTS 10

 ISSUE: MLS HAS ACHIEVED MANY OF THE LEGISLATIVE GOALS,
 BUT MANY BUSINESSES DON’T RECEIVE ONE-STOP SERVICE.....11

 ISSUE: MLS LACKS A LONG-TERM EXPANSION PLAN
 THAT ALIGNS WITH ITS FINANCIAL RESOURCES.15

 ISSUE: MLS HAS SHORT-TERM OPPORTUNITIES
 TO ADD LICENSES AND STREAMLINE SERVICE.....18

RECOMMENDATIONS..... 23

JOINT RESPONSE FROM DEPT. OF LICENSING,
OFFICE FINANCIAL MANAGEMENT 26

SECRETARY OF STATE RESPONSE..... 30

APPENDIX A: INITIATIVE 900 ELEMENTS 31

APPENDIX B: METHODOLOGY..... 32

APPENDIX C: AGENCIES AND CITIES IN MLS..... 33

APPENDIX D: OFFICE LOCATIONS 34

APPENDIX E: LICENSES NOT IN MLS 35

APPENDIX F: CITIES WITH FLAT-FEE LICENSES 39

APPENDIX G: LICENSES AND RENEWALS 40

APPENDIX H: GLOSSARY 44

STATE AUDITOR’S OFFICE CONTACTS..... 45

EXECUTIVE SUMMARY

Why we did this audit

The Master License Service program, authorized by the Legislature in 1977, is a key element of state government's effort to improve Washington's business climate by streamlining the licensing process for new and existing businesses.

Many state business licenses are available through MLS, which is administered by the Department of Licensing. A total of 10 state agencies and 33 city governments provide nearly 300 state and local licenses, registrations and other permits through the system.

We conducted this performance audit of the MLS program to determine:

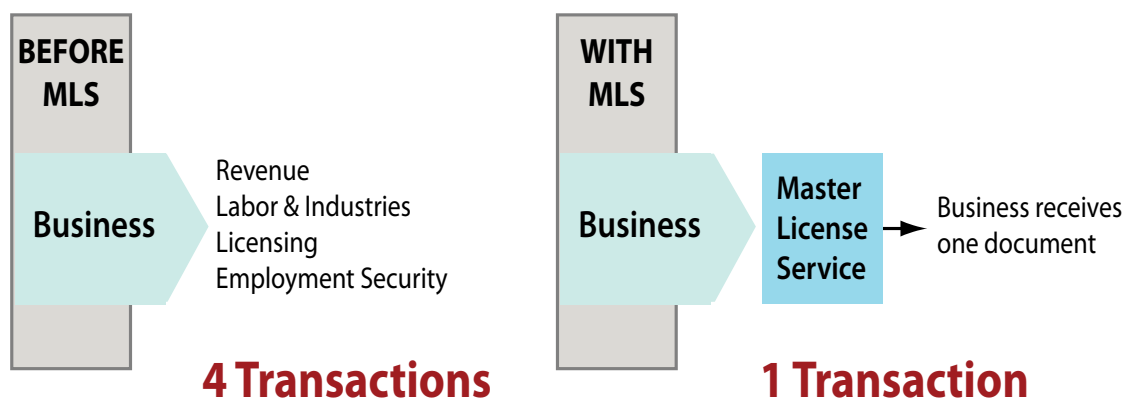
- If it is achieving the goals established in state law to provide a convenient, accessible and timely one-stop business licensing system, and to reduce paperwork and eliminate obsolete and duplicative licensing requirements.
- If its service to businesses could be improved if more state agencies and local governments participated. Our evaluation examined factors that might inhibit expansion and identified options and recommendations to overcome those barriers.

We conducted the audit under the authority of the state's performance audit law, which was approved as Initiative 900 by Washington voters in 2005. The initiative was designed to promote government accountability and the cost-effective uses of public resources. We performed the audit in accordance with generally accepted government auditing standards as prescribed by the U.S. Government Accountability Office.

Audit results

MLS has streamlined licensing and reduced duplicative requirements for many Washington businesses, whose owners no longer must contact multiple state agencies to begin operating, renew their certifications, or register a trade name. The system is especially efficient for more than 440,000 sole proprietors who can use it to fulfill all of their state registration requirements.

Master License Service Initial Licensing for a Sole Proprietor with Employees



We reviewed the program's operation from fiscal years 2007 through 2009 to evaluate its performance and develop our recommendations. We found:

- **Businesses used MLS to submit about 474,000 new** applications, renewals and account changes in 2009. Businesses used the Internet to submit approximately 69 percent of their new applications and 38 percent of renewals.
- **The system does not provide “one-stop” service to** all businesses, but it represents a significant improvement over past practices.
- **Two business groups that do not receive one-stop** service are newly formed corporations and building contractors. In 2009, about 41,000 new corporations also had to register with the Office of the Secretary of State, and 32,000 building contractors were required to apply for or renew their registrations by contacting the Department of Labor & Industries.
- **Businesses can obtain 214 state licenses through MLS.** However, we identified more than 100 state licenses and registrations that are not available through the system. We worked with staff from MLS and participating agencies to conduct a preliminary assessment of the complexity of adding them to the system.
- **Fifty-two percent of the 214 state licenses in** MLS may be obtained and renewed online, but 19 percent require paper applications, and 28 percent must be renewed with paper forms.

Summary of recommendations

We identified several long- and short-term opportunities for MLS to better serve business, and we recommend program managers:

- **Develop a strategic multiyear program expansion plan and** create a multiagency advisory committee to guide the effort. The legislation that created MLS required a “review board” and a five-year expansion plan, but those elements were dropped when the Legislature revised the law in the early 1990s.
- **Resolve concerns about the program’s finances to help** program administrators determine the availability of funding for future MLS expansion.
- **Enable more businesses to get the specific licenses** they need through MLS and to use the Internet to complete their transactions.
- **Make several short-term improvements to enhance service to** businesses and to increase the program’s overall efficiency. For example, we recommend MLS streamline service for businesses that operate in multiple locations. Currently, a business must complete a separate transaction for each location in which it operates.

We also recommend the Legislature revise the MLS law to:

- **Permit the program to process the registrations of** new corporations on behalf of the Office of the Secretary of State. Currently, MLS processes corporate renewals but is not authorized to handle new corporate registrations.

What's next

Audits of state agencies and programs are reviewed by the Joint Legislative Audit and Review Committee (JLARC) and other legislative committees whose members wish to review the findings and recommendations. Representatives of the State Auditor's Office will review the audit with JLARC's Initiative 900 Subcommittee on January 5, 2011. The public will be given the opportunity to comment at this hearing.

The Department of Licensing will determine whether to accept the audit recommendations. The State Auditor's Office conducts periodic follow-up evaluations to assess the status of audit recommendations and may conduct follow-up performance audits at its discretion.

INTRODUCTION

In the mid-1970s, the owner of a small grocery store showed an aide to Governor Dan Evans a “quilt” on his wall of the required business licenses for his store. He told the aide he had to submit a separate application and individual payment for each license. The aide thought there must be a more efficient licensing approach, which sparked development of Washington’s “one-stop” licensing concept. The aide was Ralph Munro, who later became Secretary of State and directed the office that registers all Washington corporations. The Legislature authorized the “one-stop” licensing and registration program in 1977.

Today, the Master License Service (MLS) program at the Department of Licensing is a key element of the state’s effort to improve the business climate. The program strives to streamline the process for new and existing businesses to obtain and renew the licenses and registrations they need to operate in Washington State. Many, but not all, state business licenses are available through the system. The program processed approximately 474,000 transactions in 2009.

We audited the MLS program to determine:

If it is achieving the goals established in state law to provide a convenient, accessible and timely one-stop business licensing system, and to reduce paperwork and eliminate obsolete and duplicative licensing requirements.

If its service to businesses could be improved if more state agencies and local governments participated. Our evaluation examined factors that might inhibit expansion and identified options and recommendations to overcome those barriers.

Audit Scope

We audited the MLS program in the Business and Professions Division of the Department of Licensing. We focused on fiscal years 2007 through 2009 and used more recent information when it was available.

The MLS program is designed to streamline licensing and registrations for businesses. For that reason, as we assessed opportunities to expand the program, we evaluated only licenses that are issued exclusively to businesses. We did not evaluate the many licenses issued to individuals or issued to both individuals and businesses and did not audit the other state agencies or city governments that participate in the program. Although local governments issue business licenses and may participate in the program, we did not audit these licenses, except to mention their effect on program expansion.

We conducted the audit under the authority of state law (RCW 43.09.470), approved as Initiative 900 by Washington voters in 2005, and in accordance with generally accepted government auditing standards, prescribed by the U.S. Government Accountability Office. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**See Appendix H
on page 44 for a
glossary of terms
used in this report.**

Appendix A describes the provisions of Initiative 900 and how the audit addressed the law's specific elements.

Appendix B describes our audit methodology in detail.

About the Master License Service

The Legislature authorized the MLS in 1977 (RCW 19.02) to provide businesses with a one-stop licensing system that would streamline the process and eliminate duplicative paperwork and payment requirements. The Department of Licensing's Business and Professions Division administers the program.

MLS performs a purely administrative function. It does not approve specific licenses or manage the regulatory process. Rather, it collects business information and payments. When all the required licensing agencies approve specific certifications, the program issues a single "master license" to the business, which lists all licenses and registrations. MLS administrative fees – \$15 for new applications and \$9 for renewals – support program operations and are assessed in addition to fees for specific licenses or registrations. The administrative fees, which are set in state law, have not changed since 1992. Businesses pay them once for each application, regardless of the number of registrations or licenses they apply for.

The MLS program also:

- Provides businesses with current information about many state, local and federal regulatory requirements.
- Provides businesses a consolidated application form.
- Assigns all new applicants a Unified Business Identifier (UBI) – a single number that identifies them to state agencies that participate in the MLS program.
- Provides a system for state agencies to store, retrieve and exchange license data.

The law calls for 13 state agencies to fully participate in implementing the program. The law does not define full participation, but allows MLS program managers the flexibility to identify which license types and, therefore, which agencies should be included. Five are considered "core agencies" because many new businesses must register with them. They are the:

- **Department of Revenue**, which requires all businesses to register for tax purposes.
- **Department of Employment Security**, which requires employers to register their employees in the Unemployment Insurance program.
- **Department of Labor & Industries**, which requires employers to register their employees in the Worker's Compensation program.
- **Department of Licensing**, which oversees the MLS program.
- **Office of the Secretary of State**, which registers all types of corporations.

MLS facts

- In 2009, the MLS processed approximately 474,000 applications, renewals and account changes, nearly three-quarters of which were renewals, including 272,000 corporate renewals.
- The program collected and distributed approximately \$37 million in license and registration fees for participating agencies and cities in 2009. In addition, it received about \$6 million in administrative fees.
- As of June 30, 2010, 10 state agencies and 33 cities offer 290 licenses, registrations and renewals through MLS.
- Approximately 69 percent of applications and 38 percent of renewals were submitted through the Internet in 2009.
- The program has 36 employees with an annual operating budget of about \$7 million. It is funded by business application and renewal fees.

Of the remaining eight agencies:

- Three agencies – **Agriculture, Health and the Liquor Control Board** – issue some, but not all, of their business licenses through MLS.
- Two agencies – the **Department of Commerce and the Parks and Recreation Commission** – do not issue licenses to businesses and therefore do not participate.
- Two agencies – the **Department of Social and Health Services and the Utilities and Transportation Commission** – issue business licenses or registrations but do not participate.
- One agency – the **Department of Fish & Wildlife** – does not offer licenses exclusively to businesses, but some of its licenses are available to both businesses and individuals. It does not participate in MLS.

Two other state agencies – the **Department of Ecology and the Lottery** – participate in the program along with 33 cities. **Appendix C** identifies all participating agencies and local governments as of June 30, 2010.

13 state agencies identified in the MLS law (agencies in bold participate in MLS)
Agriculture
Commerce
Employment Security
Fish & Wildlife
Health
Labor & Industries
Licensing
Liquor Control Board
Parks & Recreation Commission
Revenue
Secretary of State
Social and Health Services
Utilities and Transportation Commission

Source: RCW 19.02.050 and MLS

History of MLS expansion

- After a successful pilot project with grocery stores, the MLS began licensing them in 1977.
- The program began issuing Unified Business Identifier (UBI) numbers in 1986, when it also expanded to include nearly all Department of Revenue tax registrations.
- Through fiscal year 1990, the program added 26 licenses, registrations and renewals on behalf of nine state agencies.
- During the 1990s MLS added another 135 licenses on behalf of five participating state agencies, one new state agency, and two new cities.
- During the most recent 10 fiscal years, MLS added 129 licenses on behalf of five participating state agencies and 31 new cities.
- As of June 30, 2010, 10 state

agencies and 33 cities offer 290 licenses, registrations and renewals through MLS. The program plans to add 13 more cities by December 31, 2011.

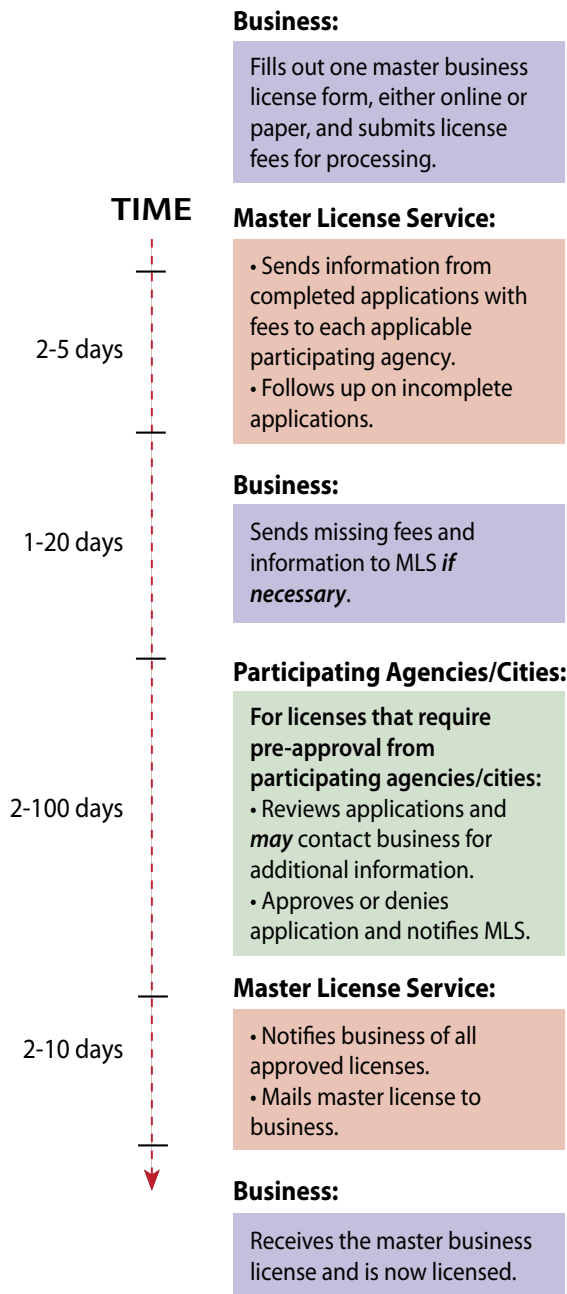
Appendix C shows the state agencies and cities that participated in the program as of June 30, 2010, and the year they joined the system.

Appendix G shows the licenses available through the program as of June 30, 2010.

How does MLS work?

This chart shows the roles and responsibilities of businesses, the MLS program and participating agencies in the license application, approval and notification processes. Not all steps are required for every license, and some businesses that apply online can receive their licenses within five business days.

Master License Service Application Process



Total Range: 4-135 days

Source: State Auditor's Office based on MLS information

AUDIT RESULTS

About the audit

We designed this audit to answer the following questions:

1. Is the Master License Service achieving the goals established in state law to provide a convenient, accessible and timely one-stop business licensing system? Does it support overall business growth by reducing paperwork and eliminating obsolete and duplicative licensing requirements?

We found the program has streamlined business licensing and reduced duplicative requirements for many Washington firms. Business owners no longer must contact multiple state agencies to begin operating, renew their certifications, or register a trade name.

MLS is an important element of the state's effort to improve its business climate and support business growth by simplifying the licensing and registration process without compromising state and local governments' regulatory responsibilities.

The system does not provide "one-stop" service to all businesses, but it represents a significant improvement over past practices.

2. Could service to businesses be improved if more state agencies and local governments participated in the program? What factors might inhibit expansion? What options are available to address those factors?

We identified several long-term and short-term opportunities for MLS to better serve business by developing a strategic multiyear expansion plan; resolving concerns about the program's financial sustainability; increasing the number of licenses and related forms available through MLS and the number available online. We found several opportunities for MLS to reduce inefficiencies and further streamline the system for businesses.

Issue: MLS has achieved many of the legislative goals, but many businesses don't receive one-stop service.

To determine the extent to which MLS has accomplished its statutory objectives, we analyzed statewide business data, licenses available through MLS, and state revenue and accounting systems. We obtained information about the history and current operation of the program from the Department of Licensing and MLS personnel. We interviewed representatives of business and government agencies, including the Association of Washington Business, the Small Business Development Council, the Governor's Office of Regulatory Assistance, the Association of Washington Cities and administrators from several participating state agencies. We found:

- Before MLS was created, businesses not only had to contact multiple agencies, they also had to fill out separate forms and make separate payments for each transaction. Now many businesses can use the system to obtain required licenses with one transaction.
- By using MLS, businesses can obtain a single identification number (the Unified Business Identifier) that is recognized by participating state agencies and cities.
- More than 440,000 sole proprietors can fulfill all of their state registration requirements through MLS. This enables them to meet their tax obligations and, if they have employees, to obtain unemployment insurance and workers' compensation coverage.
- Businesses operating in the 33 cities that participate voluntarily in MLS can also obtain the cities' general business licenses through the system.
- The MLS program has consolidated the participating agencies' multipage license applications to a single, four-page document. Business owners may complete and submit the master application online, mail a copy to the Department of Licensing in Olympia, or return the printed application to any of 46 state offices across Washington. **Appendix D** lists the office locations.
- Applications and renewals may be completed online for 112 different state licenses.
- MLS has created an online, interactive Business Licensing Guide that provides specific information on regulatory requirements from all levels of government. It includes contact information and online forms, and helps businesses identify many of their licensing requirements and costs before they begin the process.
- MLS is a critical element of the state's "Business.wa.gov" web portal that provides many services for new and existing businesses, including information on how to start and finance a business, manage employees and fulfill state and federal tax obligations. The portal is available at www.access.wa.gov/business.
- Interviews and customer surveys reveal both businesses and public agency partners are generally pleased with the service they receive from MLS and with their relationships with program personnel.

State agency and city government leaders said their organizations also benefit through:

- **Increased administrative efficiencies and cost savings.** Administrative licensing and renewal, including initial delinquency notices and related follow-up, are all handled by MLS. This frees state and local government staff to focus on other responsibilities. The system also holds down expenses for paper and postage.
- **Reductions in licensing backlogs.** Before MLS was established, one agency reported experiencing regular backlogs of license applications and renewals. While MLS does not track licensing time from start to finish across the multiple partner agencies, personnel at Licensing strive to process applications within two to five days.
- **Increased business compliance with licensing requirements.** Cities said they believe the program increases business license compliance because the master application identifies government agencies that require a business license. MLS also allows comparisons of city and state business records, which enables local officials to identify businesses that are operating in their city without a license.
- **Increased revenue.** City officials said participating in MLS has produced increased license revenues by increasing the number of businesses that obtain licenses.

Despite the program's accomplishments, many businesses don't receive one-stop service. The law that authorized MLS in 1977 said the first goal of the system was to "provide a convenient, accessible, and timely one-stop system for the business community to acquire and maintain the necessary state licenses to conduct business."

While the program has accomplished much of that goal, it does not provide "one-stop" service for many businesses. Sole proprietors generally receive one-stop service, but other firms often must apply separately for licenses and registrations that are not available through MLS. And any business that operates in multiple locations must renew each location as a separate transaction, even when renewing online.

For some businesses, the current licensing process is quite complicated. For example, a building contractor who does business as a corporation, hires employees, and has offices in several locations must:

- Submit a master business application through MLS to register for unemployment insurance, workers' compensation coverage and to receive a Unified Business Identifier number. Businesses must apply for licenses separately for each location in which they operate.
- Apply for the corporate registration at the Secretary of State's office, because that registration is not handled through MLS.
- Go to a Department of Labor & Industries office for the contractor registration, another registration not available through the program.

Ultimately, this contractor would have to contact three state agencies and make multiple individual payments.

We identified two primary reasons why MLS doesn't provide all businesses with one-stop service:

Many state licenses are not available through MLS. As described in the background section, some of the 13 agencies identified in MLS state law do not issue all of their business licenses through the program. Two agencies identified in the state law – the Utilities and Transportation Commission and the Department of Social and Health Services – issue business licenses but do not participate in the system.

In addition, four agencies whose responsibilities include business licensing – the Board of Accountancy, the Gambling Commission, the State Patrol and the Department of Transportation – have not joined MLS.

In all, we identified more than 100 state licenses and registrations that are not available through the MLS program. **Appendix E** identifies these licenses, along with the agencies that issue them. Some licenses could be added to the program more easily than others, as discussed below.

In addition, we identified 132 cities that have general business licenses that could be included in the system, although we recognize the primary mission of MLS is to streamline **state** business licensing. These cities are identified in **Appendix F**.

Some agencies are reluctant to participate or add licenses. Agency managers cited several reasons for not participating or adding licenses to the system:

- A. They believe their licenses are too complex for MLS to handle effectively.
- B. They feel their established processes work well.
- C. They do not now accept credit/debit card payments because transaction fees increase their costs. They do not want to incur the costs associated with MLS' acceptance of these forms of payment.
- D. They believe the cost of adding licenses that are infrequently issued would exceed the benefit the agency would receive.
- E. Their experience with MLS has made them skeptical that joining or expanding the system would save them time or money.

A. Complex licenses and approvals. Officials at Accountancy, Agriculture, DSHS, and Health said their agencies' approval processes for new business licenses and renewals require extensive collaboration with the licensee. Also, conditions attached to some licenses may change during the license period because of complaints or inspection results.

B. Well-established licensing systems. Managers at some agencies said their current systems already serve businesses effectively, although they acknowledge their stand-alone systems contradict the "one-stop" goal of MLS. For example, Accountancy's system allows CPA firms to obtain business licenses entirely online, from application to payment to printing.

C. Credit and debit card transaction fees. People who complete the master business application online must pay with a credit or debit card; the paper application process allows them to pay by check. Some agencies hesitate to use MLS because they would have to reimburse the program for credit card transaction fees, which are based on a percentage of the license amount. Agencies that do not normally accept credit or debit card payments would lose revenue if they had to pay transaction fees.

D. Relatively few licenses issued. Some state agency licenses are issued infrequently, and agency officials said they believe the cost to add these licenses to the program – especially if significant mainframe programming were required – would be greater than the savings to the agency or the benefit to the businesses. MLS managers agreed the amount of mainframe programming required to add some low-volume licenses might not benefit enough businesses to make the cost worthwhile.

E. Experience with MLS. While managers at agencies using MLS are generally pleased with the system and their partnership with MLS, officials at one agency said some businesses submit inaccurate information on the master application and that they had to hire an extra employee to answer customer questions and verify changes to business accounts. They also said MLS personnel are not always able to answer license-specific questions. While it is not MLS' job to answer regulatory questions related to specific licenses, such concerns still make agencies reluctant to join the program.

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

While business licensing with the state has become easier during the program's 34 years, the Department of Licensing and participating state agencies would need to resolve several significant issues to clear the way for a cost-effective and customer-focused expansion of MLS:

- A. The program lacks a strategic expansion plan, and current MLS performance measures do not generate the information managers need to identify the most cost-effective opportunities to improve service to the largest number of businesses.
- B. MLS managers need better information about program finances.

These issues are described more fully in the paragraphs that follow and are addressed in recommendations 1 through 3.

A. MLS lacks a strategic expansion plan. Neither the Business & Professions Division nor the Department of Licensing has developed a comprehensive strategic plan to expand MLS. The 1977 law that created the program required such a plan and established a multiagency review board to report to the Legislature annually about expansion opportunities, but the Legislature removed those provisions when it revised the law in 1993.

In the absence of a strategic plan and criteria on which to base long-term decisions, the strategic expansion of MLS has not been a clear agency priority. Currently, expansion decisions are largely based on past experience, near-term operational plans, and what MLS managers believe they can accomplish in the future within current or expected resources. Thus, decisions to add specific licenses or government entities have reflected short-term considerations, not long-term goals.

The program's current performance measures primarily track operational activities related to customer service, such as application backlogs and the timeliness of MLS staff's entry of applications into the system.

To support an expansion plan, MLS managers would need program and customer data to identify the most significant business licensing opportunities and to establish priorities for addressing them. At present, the program lacks data to identify the major business types in Washington, which would enable it to determine which types of businesses are – and are not – receiving the one-stop licensing and registration service that was intended when the program was established.

B. MLS managers need better information about program finances.

During the audit, Licensing and MLS managers questioned the program's financial sustainability within the current fee structure, which has not been revised since 1992. Licensing managers were concerned that the program's fund balance could be depleted by the end of fiscal year 2013.

The program's annual revenue, which comes from administrative fees paid by businesses, exceeded expenditures until fiscal year 2008. In that year, spending exceeded revenue by about \$278,000 when new staff members were hired to support MLS expansion and the program spent money to make its online application more user-friendly. Since then, expenditures have continued to outpace revenue.

To balance the program's budget, MLS managers used reserves from the master license fund. As a result, the fund's ending balance declined from \$4.1 million in fiscal year 2007 to \$3.3 million in fiscal year 2010.

Licensing budget managers believe that if this trend continues, and if future expenses equal 100 percent of budgeted amounts, the program could deplete its ending fund balance by fiscal year 2013. To prevent that situation, Licensing has proposed a statutory change to increase MLS administrative fees, effective in July 2011, from the current levels of \$15 for a new application and \$9 for a renewal to a maximum of \$19 and \$11, respectively.

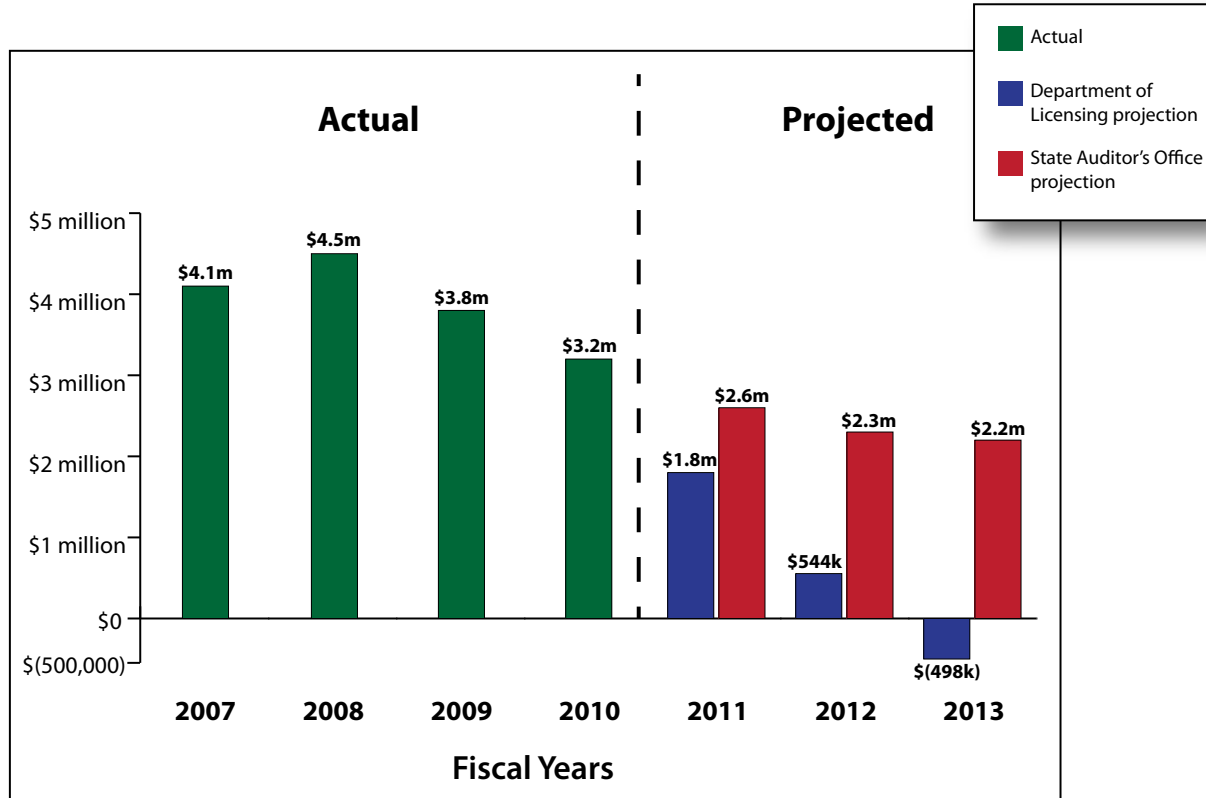
However, after reviewing the program's historical revenues and expenditures and the expense projections in the 2011 fee increase proposal, we believe it is unlikely MLS' fund balance would be depleted by 2013, for two reasons:

- **DOL budget managers used recent years' budgeted amounts**, rather than actual expenditures, as the basis for their fund balance projection. However, during the last five fiscal years the program has spent an average of only 88 percent of the budgeted amounts. In fiscal year 2010, for example, the program was budgeted \$7.8 million but spent only \$6.5 million.

When the projections are recalculated to reflect past spending patterns, it appears more likely the program will continue to spend less than budgeted amounts and will end fiscal year 2013 with a fund balance of about \$2.2 million.

The following graph shows the MLS program's ending fund balance for fiscal years 2007-10 and compares projections from 2011 through 2013 made by the Department of Licensing and the State Auditor's Office. The Licensing projection assumes spending will equal state budget allocations; the Auditor's projection assumes the spending pattern of the past five years will continue.

Fund Balance History and Compared Projections



Sources: Actual fund balances are from the state accounting system. Projected fund balances are from Licensing records used to support its fee increase request and State Auditor's Office calculations.

- **Biennial overhead charges by the Department of Licensing** to the MLS program seem high. During the 2007-09 biennium, Licensing charged the MLS program an average of 52 percent of the program's operating costs for support services and overhead costs. An additional overhead charge for the Business and Professions Division accounted for another 6 percent of the program's operating costs. These charges totaled \$7.2 million for the biennium.

Of that total, Licensing officials estimate that \$3.4 million was charged to MLS for direct services provided to the program for information technology and call center services. However, the agency did not have operating agreements to document the majority of those direct charges. The remaining \$3.8 million included such things as general government and information technology overhead charges, but may also have included other direct charges for which no documentation was available. The agency does not have a cost allocation plan for charging overhead costs to MLS, so it could not thoroughly support the amount of overhead charged to the MLS program. As a result, MLS managers were unable to verify the appropriateness of the amounts charged to their program.

Until the agency resolves the manner in which it prepares financial projections and assesses overhead charges, MLS managers will not be able to precisely determine the resources they will need for short- and long-term program expansion.

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

In the short term, the MLS program could expand and further streamline the application and renewal processes for business customers by:

- A. Increasing the number of state and local government licenses in the system.
- B. Targeting short-term expansion efforts to better serve two specific business groups.
- C. Increasing the number of state applications and renewals that may be completed online.
- D. Resolving data inconsistencies between agencies in the current program.

These issues are described more fully in the paragraphs that follow and are addressed in recommendations 4 through 8.

A. Increasing the number of licenses in the system. Adding a license to the MLS program can be time-consuming and costly for both MLS and the participating agency. To understand the amount of effort required, MLS personnel would have to meet with each agency to review each license. No single factor makes a license easy or hard to add to the program. Based on our discussions with MLS staff, we made a preliminary assessment of the degree of difficulty to add the licenses listed in **Appendix E**, where we categorized them as having low, medium or high complexity.

Our assessment considered licenses with flat fee structures to be relatively easy to add to the system and assigned them low complexity. Other licenses might be more complex if they required legislative approval, multiple agency review or extensive computer programming. We recognize complete assessment of the individual licenses by MLS staff could result in different ratings.

We found state agencies issue a total of 42 licenses that could be categorized as having low complexity. The Department of Licensing, which operates MLS, issues many of these licenses. We categorized another 68 licenses as more complex due to extensive programming requirements or relatively complicated regulatory processes.

Appendix E lists the state licenses that are not available through MLS and our assessment of the relative complexity of adding them to the system.

Many local business licenses also could be included in the system relatively easily. At least 132 cities offer general business licenses with a flat fee structure that could be added to the system with relatively little computer programming. **Appendix F** identifies those cities.

This group **does not** include several larger cities, such as Seattle, Spokane, Tacoma and Vancouver, because they have more complex licensing requirements and fee structures. Adding these larger cities would streamline the licensing process for many businesses, but the requirements for adding them to the system would be relatively complex and costly.

B. Targeting short-term expansion efforts to better serve two specific businesses groups. Two commonly required transactions are not available in MLS:

- **New corporate registrations**, which about 41,000 companies obtained in 2009.
- **Building contractor registrations and renewals**, which were provided to about 32,000 contractors by the Department of Labor & Industries.

Specific issues would need to be resolved for each group.

- **Corporate registrations.** Corporations are the largest single group of businesses that do not receive one-stop service from MLS, for two reasons:

First, state law requires them to register and renew their registrations with the Secretary of State. Although MLS is authorized to work with the Secretary of State on corporate **renewals**, the program does not have similar authority to process **new** registrations. The Legislature would need to revise the law to grant that authority.

Second, the inclusion of corporate renewals in MLS has not streamlined that process for corporations. Corporations can renew their registrations through MLS, but the transaction requires a separate personal identification number, for security purposes, and must be paid for separately from other required licenses.

In 2009, the Secretary of State registered about 41,000 new corporations, and MLS processed 272,000 corporate renewals. While we did not assess the complexity of adding these registrations to the system, managers from the Office of the Secretary of State said significant computer programming resources might be required to add this registration to MLS.

- **Building contractor registrations and renewals.** The registration of building contractors is a key consumer protection responsibility of the Department of Labor & Industries (L&I). The possibility of registering contractors through MLS has been discussed periodically since the late 1970s, but no decision has been made. In 2009, L&I registered about 7,400 new building contractors and processed about 24,000 renewals for contractors who must renew their registrations every other year.

L&I permits contractors to pay registration fees online, but agency officials said most new contractors register in-person or mail their paperwork to L&I because notarized copies of their registration application and copies of all relevant business and insurance paperwork are required. L&I officials said they are concerned that adding contractor registration to MLS program would require significant computer reprogramming at their agency, and could increase the license processing time for contractors and contribute to errors in processing address changes and other account revisions.

C. Increasing the number of state applications and renewals available

online. A total of 214 state licenses and registrations may be obtained through MLS. While 112 licenses may be obtained and renewed online and some businesses can complete their new applications and renewals in one transaction, many others cannot. Businesses must submit applications and/or renewals on paper for more than 45 percent of the licenses available through MLS. In many cases, this is because participating agencies are reluctant to incur the costs of credit card fees associated with online transactions. Also, businesses with multiple locations must license and renew each location in a separate transaction. As a result, the process is not as convenient or timely as it could be for businesses.

These tables show the number of state applications and renewals that can and cannot be transacted online.

New Applications	
138	May be submitted online (65 percent)
41	Must be submitted on paper (19 percent)
35	May be submitted online, but require supplemental paper documents (16 percent)
214	Total state licenses in MLS

Renewals	
112	May be renewed and applied for online (52 percent)
12	May be renewed online but must be applied for on paper (6 percent)
61	Cannot be renewed online but can be applied for online (28 percent)
29	Cannot renew or apply online (14 percent)
214	Total state licenses in MLS

Several aspects of MLS operations appear to reduce the rate of online transactions:

- Business owners cannot submit their master applications online if licenses required for their individual companies are not available online, or if supplemental paper forms are required by the issuing agency.
- Business owners who access MLS at the 46 state offices listed in **Appendix D** are more likely to be provided paper forms rather than to be encouraged to file online.
- The renewal reminder packets mailed by MLS to individual business owners include paper renewal forms.

The limited availability of online service is reflected in how businesses apply for and renew licenses. In 2009, 69 percent of new business applications and 38 percent of renewal requests were submitted online.

Increasing the rate of online filings and reducing paper submissions would increase program efficiency by reducing the volume of data that MLS personnel must manually enter into the system. Also, it could reduce the errors that can occur during the transfer of data from paper forms to electronic systems.

There are numerous examples of how Washington state agencies – including other divisions of the Department of Licensing – have increased their online filing rates by actively promoting e-filing. For example, state laws require certain businesses to file their taxes with the Department of Revenue electronically or obtain an exemption. Revenue administrators estimate the agency's online filing rate at 70 percent to 75 percent. They also estimate electronic filings have allowed them to accommodate a 109 percent increase in registered businesses over the past 15 years with only a 2.7 percent increase in staffing.

In addition, the Department of Licensing's Programs & Services Division encourages Internet filings for driver licenses and vehicle tab renewals by sending post cards or e-mails which encourage online license and tab renewals. Recently, Licensing has begun to require all boat owners to renew their tabs online.

MLS managers said there are several reasons why certain license types must be submitted on paper. For example, some require proof of signature or must be notarized. Others are issued infrequently, and their addition to the system is not seen as cost-effective by the issuing agencies. However, because the paper forms must be mailed and the data entered manually by MLS personnel, the licensing process can be extended by up to two weeks, and all parties incur mailing and postal expenses.

D. Resolving data inconsistencies between agencies in the current program. MLS personnel and their agency counterparts reconcile inconsistencies in data between the MLS system and the licensing and registration systems used by individual agencies. Examples of inconsistent data include:

- **Business owners who have mistakenly obtained multiple identification numbers.** The MLS program connects identification numbers to business owners and not business names. In some cases, a business owner who closes one company and opens another may incorrectly request a new UBI number. Important notifications may then be sent to the wrong business address.
- **Inconsistent address information.** Sometimes business owners change addresses but do not notify state agencies through the MLS system. This can result in state systems containing multiple addresses for the same person. If Revenue, Licensing and participating cities have outdated or inconsistent account information, businesses may not receive notification of taxes due and may incur penalties.

- **A combination of factors.** It is not uncommon for a business owner to close one business and open another at a different address, which could cause the MLS system and participating agencies to experience both of the problems described above – receiving multiple identification numbers and multiple addresses for the same business owner.
- **Incorrect information submitted by businesses.** Reconciling inconsistent account information impacts MLS and participating agencies. When business account information differs among the participating agencies, MLS personnel must do research to determine which agency has the most recent information. Sometimes staff members must call businesses to obtain accurate information. Once correct information is confirmed, it must be keyed into the MLS system and notifications sent to state agencies and local governments.

MLS managers do not track the time required to do “account cleanups,” although they estimated MLS staff devote an average of 30 hours a week to reconcile conflicting business data.

RECOMMENDATIONS

Recommendations for long-term program expansion

The Department of Licensing should take several actions to lay the foundation for significant long-term expansion of MLS.

1. Re-establish an MLS advisory committee and five-year expansion plan

We recommend the Department of Licensing and the participating state agencies and local governments re-establish two program elements that were required under the law that created MLS: (1) a multiagency advisory committee (termed a “review board” in the original state law) and (2) a five-year expansion plan.

The committee should include representatives of the core state agencies, city governments that participate in the program and statewide business associations whose members use MLS. The committee should address overarching policy and strategic issues, including development of the five-year expansion plan. It should also designate an operations work group to coordinate strategic MLS initiatives and increase the number of licenses in the system and the number of online supplemental forms.

To support the expansion plan, MLS managers and participating agencies should update the inventory of state licenses that are and are not available through MLS and analyze the likely costs and benefits of potential changes, in order to understand which improvements would provide the greatest value to the largest number of businesses. Program partners should evaluate the 108 licenses identified in **Appendix E** to aid in their expansion planning.

2. Develop more relevant performance data

To support the expansion plan and ongoing operations, we recommend MLS administrators revise and broaden the scope of existing MLS performance measures. Doing so will enable them – and the public – to identify the most promising expansion opportunities and to evaluate whether the program is accomplishing its primary mission.

Specifically, we recommend the program improve the way it tracks and reports on **total** application processing time, and the extent to which it provides one-stop service to specific business types. Tracking total processing time from the business’s submission of its application until the required licenses are issued will enable MLS to identify specific points in its process where timeliness could be improved and to flag unusual trends in license processing at participating agencies. Identifying business groups that are and are not receiving one-stop service will enable the agencies to evaluate the most cost-effective ways to further streamline the service.

3. Resolve financial concerns about program stability

We believe that within the current fee structure, the program is financially sustainable through fiscal year 2013 if historic spending patterns continue. To resolve questions about the program’s sustainability beyond that date, and to determine the appropriateness of the Department of Licensing’s overhead and support charges, we recommend MLS managers:

- A. Re-evaluate the method they use to project MLS operating expenses and fund balances. Budget projections should reflect the resources needed to sustain current operations with a reasonable fund balance, make incremental changes and implement the program's five-year strategic expansion plan. Projections should identify the computer programming resources needed to support different levels of program expansion.
- B. Work with the Department of Licensing budget office to develop a consistent methodology for allocating agency overhead expenses. The methodology should demonstrate how overhead charges relate to benefits received by the program. For example, agency payroll and human resources charges are usually based on the number of program employees, while information technology overhead charges are often based on the number of computers used by the program.
- C. Work with Licensing support service managers to develop internal operating agreements for direct support, such as call center and information technology services. These agreements should ensure MLS managers can accurately predict future costs and resource requirements.

Recommendations to add licenses and streamline service

The Department of Licensing should take several actions in the short term – the next 12 to 18 months – to increase the number of licenses available to businesses and the number available online.

4. Increase online availability of licenses, renewals, supplemental forms

We recommend MLS managers work with their agency counterparts to increase online filings by adopting these or other strategies:

- Increase the number of new license applications and renewals that can be completed online, with a priority on relatively high-volume licenses.
- Increase the number of supplemental forms that can be completed and submitted electronically, instead of requiring businesses to mail paper documents.
- Replace the paper forms currently included in license renewal packets with directions on how businesses can renew their licenses online.
- Send licensing reminders by e-mail.

5. Revise MLS state law to permit registration of new corporations

We recommend state lawmakers revise the current MLS state law to authorize MLS to process new corporate registrations and renewals on behalf of the Office of the Secretary of State. Currently, MLS performs this administrative function for renewals but not for new registrations.

This recommendation would not require a reorganization of the responsibilities or decision-making powers of the Secretary of State under current law. Statutory changes would be required only to authorize MLS to receive and forward business documents related to corporate registrations,

and notify corporations when their registrations have been confirmed or approved by the Secretary of State.

Lawmakers also may wish to update other aspects of the current law. For example, the law currently identifies agencies that do not issue business licenses and refers to specific licenses and fee amounts that may not be relevant today.

However, the law should continue to give MLS managers the flexibility to determine which licenses and agencies should be included in the program.

6. Streamline the process for businesses with multiple locations

We recommend MLS and Licensing managers create a plan for updating the program's online applications to allow businesses to select the locations they want to license, register or renew in one transaction.

MLS should also work with the Office of the Secretary of State to ensure corporate registrations and renewals can be included as an option in the single transaction.

7. Revise the process for making business account changes

We recommend MLS managers change the process for updating customer account information and for obtaining a UBI number to reduce the need for multiagency data reconciliations and to decrease the risk that businesses will fail to receive important notifications.

MLS and the core partner agencies should reconsider the best method for businesses to obtain a UBI number, to reduce the risk that multiple UBI numbers will be issued to a single business owner. In addition, they should consider the best method for businesses to report changes of address and other changes in account information. Prior attempts by the UBI Board to resolve this issue have resulted in minimal progress, so an independent consultant may be needed to independently analyze the most frequent causes of data inconsistencies and to identify options for correcting the problems.

8. Resolve concerns over acceptance of credit cards and transaction fees

We recommend Licensing and MLS managers work with current and potential participants to address concerns about fees associated with business use of credit and debit cards for MLS transactions. Credit cards tend to have the highest transaction fees but there are other electronic payment methods that have lower fees. Although accepting electronic payments has costs, there are some benefits to agencies. For example, electronic payments are deposited sooner, reducing the time agencies spend on cash receipting, bank reconciliations and bad-check collections.

JOINT RESPONSE FROM DEPT. OF LICENSING, OFFICE FINANCIAL MANAGEMENT



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,

Handwritten signature of Liz Luce in blue ink.

Liz Luce, Director
Department of Licensing

Handwritten signature of Marty Brown in blue ink.

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.)

SECRETARY OF STATE RESPONSE

SECRETARY
of STATE

Sam Reed



Legislative Building
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December 8, 2010

Julie Amos
Office of the Washington State Auditor
P.O. Box 40021
Olympia, Washington 98504-0021

Dear Ms. Amos,

Our office recognizes the difficult and demanding job that the State Auditor's Office has in conducting performance audits of the many state agencies and programs. It is especially challenging when the program touches many other programs. The team of auditors who conducted this audit were pleasant and professional in their questioning at all times and should be commended for their conduct and thoroughness.

We support the concept of a "one-stop shop" experience for the customer, but not at the expense of customer service. Consolidating forms does not consolidate the services. The Master Business Licensing program does an excellent job of passing license requests for over 200 different business licenses to 13 different state regulatory agencies for processing. The application can be a great time saver for a business owner who needs several different licenses to open his business.

However, incorporation or the formation of a limited liability company is not the same thing as applying for a license. State law does not require a business to form such an entity. It is a choice that involves decisions by a business owner or owners that relate to taxation and liabilities, and usually involves a group of people. It is unlike a sole proprietorship in every way and we should be very careful not to confuse the two for the customer.

We believe that the best answer to accomplishing more consolidation for businesses is a single database for the five agencies, referred to as the UBI agencies: Secretary of State, Department of Licensing, Department of Revenue, Labor and Industries, and Employment Security Department. If all of the agencies, and online customers, entered information into a single database, it could be a real one-stop shopping experience, rather than a confusion between licensing and incorporating.

Like the Auditor's Office, we are dedicated to finding ways to improve the customer's experience when starting and maintaining a business in Washington State. Our office will continue to work with the Master Business License Program, as well as the other UBI agencies to consolidate and refine our processes to that end.

Sincerely,

SAM REED
Secretary of State

APPENDIX A: INITIATIVE 900 ELEMENTS

Initiative 900, approved by Washington voters in 2005 and enacted into state law in 2006, authorizes the State Auditor's Office to conduct independent, comprehensive performance audits of state and local governments. Specifically, the law directs the State Auditor's Office to "review and analyze the economy, efficiency, and effectiveness of the policies, management, fiscal affairs, and operations of state and local governments, agencies, programs, and accounts."

Performance audits are to be conducted according to U.S. General Accountability Office government auditing standards. In addition, the law identifies nine elements that are to be considered within the scope of each performance audit. The State Auditor's Office evaluates the relevance of all nine elements to each audit.

The table below indicates how the elements are addressed in the Master License Service Audit.

I-900 Element	Addressed in audit
1. Identification of cost savings	Yes. The audit identifies cost-saving opportunities and recommends MLS managers re-evaluate resource needs when they develop a five-year expansion plan.
2. Identification of services that can be reduced or eliminated	Yes. We recommend more entities use MLS and reduce the time and resources needed to process license applications.
3. Identification of programs or services that can be transferred to the private sector	No. Business licensing and regulation are core state government functions.
4. Analysis of gaps or overlaps in programs or services and recommendations to correct them	Yes. We identify gaps in current service and recommend strategies to address them.
5. Feasibility of pooling information technology systems within the department	Yes. Agencies' licensing information systems are already connected through MLS. We recommend MLS managers identify IT needs when they develop a five-year expansion plan.
6. Analysis of roles and functions of the department, and recommendations to change or eliminate departmental roles or functions	Yes. We analyzed selected program activities and recommended improvement opportunities.
7. Recommendation for statutory or regulatory changes that may be necessary for the department to properly carry out its functions	Yes. We recommend lawmakers revise state law to authorize specific program improvements.
8. Analysis of departmental performance data, performance measures, and self-assessment systems	Yes. We recommend MLS improve its performance measurement system to better support ongoing operations and strategic program expansion.
9. Identification of best practices	Yes. The MLS program is itself a best practice and we recommend several best practices, particularly in strategic planning and performance management.

APPENDIX B: METHODOLOGY

To gain an understanding of the Master License Service, we:

- Interviewed MLS management and staff.
- Interviewed the Licensing Department's internal auditor and financial and budget staff.
- Researched program history at the Washington State Archives.
- Reviewed relevant program documents, financial information, studies, audits and legal criteria.

To gain an understanding of the perspectives on MLS of the business community and participating agencies, we:

- Interviewed
 - Association of Washington Business
 - Small Business Development Council
 - Governor's Office of Regulatory Assistance
 - Core state agencies
 - Cities of Redmond and Zillah
 - Licensing Department customer service department
- Reviewed customer satisfaction surveys from 2005

To understand how well MLS was serving the businesses statewide, we compared the licenses available through the program to those required for major types of Washington businesses. We used NAICS data provided by the Department of Revenue to identify business types that are not receiving one-stop licensing.

To identify other licenses not included in the program, we:

- Obtained information on business licenses issued by state agencies identified in MLS state law (RCW 19.02).
- Used the state accounting system to identify agencies that did not participate in MLS but received at least \$1 million in licensing, permit or fee revenues in fiscal year 2009. We obtained information from these agencies about any business licenses they issue.
- Reviewed the identified licenses with MLS and the applicable agencies to determine the level of complexity involved with adding them to the system.

APPENDIX C: AGENCIES AND CITIES IN MLS

10 Participating State Agencies, Year Joined MLS			
Agriculture	1987	Licensing	1988
Ecology	1989	Liquor Control Board	1998
Employment Security	1987	Lottery	1987
Health	1989	Revenue	1987
Labor & Industries	1987	Secretary of State	1987
33 Participating Cities, Year Joined MLS			
Anacortes	2007	Marysville	2007
Bellevue	1996	Monroe	2006
Blaine	2009	Port Orchard	2010
Bonney Lake	2007	Prosser	2008
Clyde Hill	2010	Pullman	2010
Covington	2007	Richland	1996
Duvall	2006	Ruston	2009
Eatonville	2009	Sammamish	2002
Fircrest	2009	Sequim	2010
Gig Harbor	2006	Shoreline	2010
Ilwaco	2009	Skykomish	2006
Issaquah	2006	Spokane Valley	2004
Lake Stevens	2007	Stanwood	2007
Leavenworth	2010	Sultan	2006
Liberty Lake	2008	Sumner	2007
Long Beach	2009	Tumwater	2003
Longview	2009		

Note: 1987 was the first year MLS tracked this information

Source: Master License Service as of June 30, 2010

APPENDIX D: OFFICE LOCATIONS

State office locations for MLS business customers
Western Washington
Aberdeen
Bellevue (2)
Bellingham (3)
Bremerton
Everett (2)
Kelso
Kent
Lynnwood
Mount Vernon
Olympia (4)
Port Angeles (2)
Seattle (3)
Tacoma (3)
Tukwila
Tumwater (2)
Vancouver (3)
Eastern Washington
Colville
Kennewick (2)
Moses Lake
Pullman
Richland
Spokane (3)
Wenatchee (3)
Yakima (3)

Note: The offices outside of Olympia are operated by the departments of Employment Security, Labor & Industries and Revenue.

Source: Master License Service as of June 30, 2010

APPENDIX E: LICENSES NOT IN MLS

This appendix lists many of the state business licenses that were not available through the MLS as of June 30, 2010. The issuing agencies identified the individual licenses and the number issued in the most recent year. Some licenses are not issued every year. We did not analyze in-depth – and did not include in this appendix – a number of licenses that appeared too complicated to be included in the MLS.

The level of complexity is a preliminary assessment of the effort required by MLS staff to add a license to the MLS system. It **does not** reflect the complexity of an agency's licensing or registration processes.

To fully understand the effort required to add individual licenses, MLS would have to meet with each agency and review each license. A complete assessment of the individual licenses by MLS staff may result in different complexity ratings.

Low-Complexity Licenses			
Agency, License, Number Issued		Agency, License, Number Issued	
Agriculture		Licensing - Continued	
Animal Health - Rendering Plants	0	Cemetery Crematory License	3
Fruit & Vegetable - Controlled Atmosphere Storage License	80	Cemetery Cremated Remains Disposition Permit	8
Pesticide Management - Commercial Feed Distribution	550	Cemetery Prearrangement Sales License	0
Ecology		Certificate of Removal Registration	1
Power License	1	Cosmetology Mobile Unit	7
Health		Cosmetology Personal Services	67
Drug Animal Control /Humane Society Registration	3	Cosmetology Salon/Shop	2,055
Drug Dog Handlers K9 Registration	4	Cosmetology School	8
Drug Fish and Wildlife Registration	0	Crematory Endorsement	3
Drug Itinerant Vendor Registration	0	Driver Training School License - Branch Office	43
Drug Other Controlled Substances Registration	6	Driver Training School License - Main Office	13
Drug Precursor Chemicals Registration	0	Exemption from Prearrangement Sales License	0
Drug Sample Distributor Registration	16	Funeral Establishment - Branch Office	14
Emergency Response Warehouse	10	Funeral Establishment - Main Office	25
Pharmaceutical Manufacturer License	16	International Fuel Tax Agreement	646
Poison Distributor License	0	Prearrangement Funeral Services Contract	21
Poison Manufacturer License	0	Tattooing & Body Piercing Location License	0
Radioactive Materials General License Registrations	70	Liquor Control Board	
Radioactive Materials Registrations (RHF-15 In vitro testing)	5	Class 2 - Alcohol Permit - Industrial Use	530
Radioactive Materials Registrations (RHF-20 Depleted uranium)	1	Class 4 - Serve Employee and Guests Permit	6
Licensing		Class 5 - Alcohol Permit - Industrial Use	37
Appraiser Management Company	0	Class 6 - Alcohol Permit - Medical Use	46
Architect Corporation	29	Class 7 - Military Permit	4
Bail Bond Agency - Branch Office	11	Class 11 - Bed and Breakfast Permit	5
Bail Bond Agency - Main Office	18	Transportation	
Cemetery Certificate of Authority	8	Aircraft Dealer License	53
Total Low Complexity: 47 license types; 4,423 licenses issued in most recent year			

continued next page

Medium-Complexity Licenses	
Agency, License, Number Issued	
Agriculture	
Certified Feed Lot License	6
Grain Warehouse Dealer License	Not Provided
Grain Warehouse License	Not Provided
National Organic Program Certification	1,130
Plant Protection – Commission Merchant License	24
Plant Protection – Service Agent Registration	20
Plant Protection – Weighmaster License	33
Health	
Aid Vehicle	180
Air Ambulance Fixed Wing Aircraft	3
Air Ambulance Rotary Wing Aircraft	12
Ambulance	229
Labor and Industries	
Building Contractor Registrations	7,429
Licensing	
Engineering/Land Surveying Corporation	115
Engineering/Land Surveying LLC	52
Motor Fuel Special Fuel Aircraft Fuel	26
State Patrol	
Ignition Interlock Devices	6
Utilities and Transportation Commission	
Common Carrier Permits	415
Solid Waste Collection Company Certificate	9
Auto Transportation Certificates	7
Charter/Excursion Certificates	29
Household Goods Authority Permit	32
Total Medium-Complexity Licenses: 21 license types	9,757 licenses issued in most recent year

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High-Complexity Licenses			
Agency, License, Number Issued		Agency, License, Number Issued	
Agriculture		Health - Continued	
Public Livestock Market License	6	Cherry Harvest Camp License	4
Board of Accountancy		Child Birth Center License	0
CPA Firm License	70	Hospital Acute Care License	2
Gambling Commission		Hospital Alcohol and Chemical Dependency License	0
Amusement Games – Carnival	1	Hospital Psychiatric License	0
Annual Agricultural Fair Permit	0	In Home Services Agency License	44
Commercial Amusement Games	51	Medical Test Site Accredited License	11
Distributor	2	Medical Test Site Categorized License	87
Fund Raising Event Equipment Distributor	3	Medical Test Site Certificate of Waiver License	220
Gambling Service Supplier	7	Medical Test Site Provider Performed Microscopic Procedures License	52
Linked Bingo Prize Provider	0	Pharmacy Health Care Entity License	7
Manufacturer	4	Pharmacy License	65
Punch Boards/Pull tabs	124	Residential Treatment Facility License	2
Punch Board/Pull Tab Service Business Permit	0	Temporary Worker Housing License	21
Health		Transient Accommodation License	89
Animal Care & Control Agency/ Humane Society Registration	1	Labor and Industries	
Aid Service License	4	Electrical Contractor License	614
Aid Service Verified License	4	Licensing	
Air Ambulance Service License	1	Firearms Dealer	767
Air Ambulance Service Verified License	0	Social and Health Services	
Ambulance Service License	2	Residential – Adult Family Homes	2,873
Ambulance Service Verified License	9	Residential – Boarding Homes	554
Ambulatory Surgical Facility License	212	Residential – Nursing Homes	248
Total High-Complexity Licenses: 40 license types; 6,161 licenses issued in most recent year			

Notes: The number of licenses issued is for the most recent 12-month period for which complete information was available. Some licenses are not issued every year.

Source: Auditor analysis based on discussions with MLS and agency staff

APPENDIX F: CITIES WITH FLAT-FEE LICENSES

The following table shows all cities in Washington that do not participate in MLS but have general business licenses with flat fees.

• Aberdeen	• Everett	• Morton	• Sedro-Woolley
• Albion	• Everson	• Moses Lake	• Selah
• Algona	• Federal Way	• Mossyrock	• Shelton
• Asotin	• Friday Harbor	• Moxee	• Snohomish
• Auburn	• George	• Mukilteo	• Soap Lake
• Bainbridge Island	• Goldendale	• Naches	• South Bend
• Battle Ground	• Grand Coulee	• Napavine	• South Cle Elum
• Bellingham	• Grandview	• Nespelem	• South Prairie
• Bremerton	• Harrah	• Nooksack	• Spokane
• Bridgeport	• Hartline	• Normandy Park	• Sprague
• Brier	• Hatton	• North Bend	• Springdale
• Bucoda	• Hoquiam	• North Bonneville	• Stevenson
• Carbonado	• Index	• Northport	• Sumas
• Cashmere	• Kalama	• Oak Harbor	• Tacoma
• Castle Rock	• Kelso	• Ocean Shores	• Tenino
• Cathlamet	• Kennewick	• Omak	• Tieton
• Centralia	• Kent	• Oroville	• Toledo
• Chehalis	• Kettle Falls	• Othello	• Toppenish
• Chelan	• Kittitas	• Pateros	• Twisp
• Clarkston	• La Center	• Pe Ell	• Vader
• Colville	• Lacey	• Poulsbo	• Waitsburg
• Concrete	• Lake Forest Park	• Prescott	• Warden
• Cosmopolis	• Lakewood	• Quincy	• Waterville
• Coulee Dam	• Langley	• Rainier	• West Richland
• Darrington	• Lyman	• Raymond	• Westport
• Deer Park	• Lynden	• Redmond	• White Salmon
• Edmonds	• Lynnwood	• Renton	• Wilkeson
• Electric City	• Mabton	• Republic	• Winlock
• Elma	• Mattawa	• Ridgefield	• Winthrop
• Elmer City	• Medical Lake	• Rock Island	• Woodinville
• Enumclaw	• Mesa	• Roslyn	• Woodway
• Ephrata	• Metaline Falls	• Roy	• Yacolt
	• Montesano	• SeaTac	• Yelm
			• Zillah

Source: Association of Washington Cities

APPENDIX G: LICENSES AND RENEWALS

List of state agency licenses and renewals available through MLS as of June 30, 2010.

Agency, License, Year Added		Agency, License, Year Added	
Agriculture		Health	
Commercial Fertilizer Distribute	1995	Airport Baggage X-Ray	2007
Cordage Meter	1995	Analytical X-Ray Fluorescence	2007
Egg Dealer - Main Office	1987	Bomb Squad X-Ray Machine – No Fee	2007
Egg Dealer Duplicate Location - Branch Office	1987	Bone Densitometer – No Fee	2007
		Cabinet X-Ray	2007
Fabric Meter	1995	Computer Tomography	2007
Liquid Propane Gas Meter Large	1995	Dental X-Ray	2007
Liquid Propane Gas Meter Small	1995	Electron Microscope – No Fee	2007
Mass Flow Meter	1995	Industrial Accelerator	2007
Motor Fuel Meter High	1995	Industrial Radiographic	2007
Motor Fuel Meter Intermediate	1995	Mammography – No Fee	2007
Motor Fuel Meter Low	1995	Medical Fluoroscopic	2007
Nursery Retailer	1987	Medical Radiographic	2007
Nursery Wholesaler	1987	Other Industrial Use	2007
Pesticide Dealer	1987	Podiatry (Radiographic & Fluoroscopic)	2007
Scale Intermediate	1995	Shopkeeper	1989
Scale Large	1995	Stereotactic Mammography	2007
Scale Railroad Track	1995	Therapy – Accelerator	2007
Scale Small	1995	Therapy – Non-Accelerator	2007
Seed Dealer	1987	Veterinary (Radiographic & Fluoroscopic)	2007
Taxi Meter	1995	X-Ray Dental/Podiatry/Veterinary	2007
Ecology		X-Ray Facility	2007
Waste Tire Carrier	1989	X-Ray Facility Capped	2007
Underground Storage Tank	1995	X-Ray Hospital/Medical/Chiropractic	2007
Used Vehicle Battery Collector	1991	X-Ray Industrial, Research, Educational, Security or Other Facilities	2007
Waste Tire Carrier Cab Card	1998	Labor & Industries	
Waste Tire Storage Site Owner	1989	Industrial Insurance	1987
Employment Security		Minor Work Permit	1990
Unemployment Insurance	1987	Minor Work Permit – Agriculture	1990

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Agency, License, Year Added			
Licensing			
Business ID Number Only	1993	Out-of-State Agency	1994
Collection Agency - Main Office	1994	Out-of-State Agency – No Fee	1994
Collection Agency - Branch Office	1994	Out-of-State Collection - Branch Office	1997
Commercial Telephone Solicitor	1990	Out-of-State Collection No Fee - Branch Office	1997
Employment Agency - Main Office	1994	Out-of-State Seller of Travel - Main Office	1995
Employment Agency - Branch Office	1994	Out-of-State Seller of Travel - Branch Office	1995
For Hire	1989	Private Investigators - Main Office	1998
For Hire Vehicle	1996	Private Investigators - Branch Office	1998
Hulk Hauler	2005	Registered Tow Truck Operator - Main Office	2005
Limousine Carrier	1996	Registered Tow Truck Operator Storage Site - Branch Office	2005
Limousine Vehicle	1996	Rental Car Registration	1993
Manufactured Home Community Reg.	2007	Scrap Processor	2005
Manufactured Home Travel Trailer Dealer - Main Office	2005	Seller of Travel - Main Office	1995
Manufactured Home Travel Trailer Sub-agency - Branch Office	2005	Seller of Travel - Branch Office	1995
Misc. Vehicle Dealer - Main Office	2005	Snowmobile Dealer	2005
Misc. Vehicle Dealer Sub-Agency - Branch Office	2005	Trade Name Registration	1988
Motor Vehicle Dealer - Main Office	2005	Vehicle Manufacturer	2005
Motor Vehicle Dealer Sub-Agency - Branch Office	2005	Vehicle Transporter	2005
Motor Vehicle Dealer Wholesaler	2005	Vessel Dealer	2005
Motor Vehicle Wrecker - Main Office	2005	Whitewater River Outfitter	1997
Motor Vehicle Wrecker - Branch Office	2005		
Off Road Vehicle Dealer	2005		

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Agency, License, Year Added			
Liquor Control Board			
Alcohol in Candy	2007	Keg Sales to Go	2007
Authorized Representative (4 types)	2004	Liquor Importer	1998
Beer and Wine Specialty (5 types)	1998	Manufacturer Liquor	1998
Beer Distributor	1998	Microbrewery	1998
Beer Importer	1998	Microbrewery Warehouse	2008
Beer/Wine Export	1998	Motel with Honor Bar in Rooms	1998
Beer/Wine Gift Delivery	1998	Nightclub License	2009
Bonded Wine Warehouse	1998	No Fee Tobacco Products (3 types)	2005
Caterer's Duplicate	2007	Non Club Event	1998
Catering	1998	Off Premises	1998
Certificate of Approval Shipper to Retailer	2006	Off Premises Private Label Wine	2001
Certificate of Approval Wine Shipper to Consumer	2006	Off Premises Restricted Fortified Wine	1998
Chemist Distiller	1998	Off Premises Sale Wine	2008
Cigarette Retailer	1987	Out-of-State Beer and Wine (2 types)	2004
Cigarette Vending Machine	1987	Private Club Beer/Wine	1998
Cigarette Wholesale - Branch Office	1987	Private Club Beer/Wine/Spirits	1998
Cigarette Wholesaler - Main Office	1987	Public House (3 types)	1998
Craft Distillery	2008	Restaurant Beer and Wine (5 types)	1998
Direct Shipment Receiver - in WA only	2007	Restaurant Beer Only (5 types)	1998
Direct Shipment Receiver - in/out WA	2006	Restaurant Wine Only (5 types)	1998
Distill/Rectify	1998	Ships Chandler	1998
Domestic Brewery	1998	Snack Bar (4 types)	1998
Domestic Brewery Brand Owner	2000	Spirits/Beer/Wine Restaurant Airport Bar (2 types)	1998
Domestic Winery <250,000 Liters - Branch Office	2000	Spirits/Beer/Wine Restaurant Convention (2 types)	1998
Domestic Winery <250,000 Liters - Main Office	1998	Spirits/Beer/Wine Restaurant Lounge (4 types)	1998
Domestic Winery >249,000 Liters - Branch Office	2000	Spirits/Beer/Wine Restaurant Non Public (2 types)	1998
Domestic Winery >249,000 Liters - Main Office	1998	Spirits/Beer/Wine Restaurant Service Bar (2 types)	1998
Duplicate Airport Spirits Beer Wine	1998	Spirits/Beer/Wine Restaurant Ship Lounge (4 types)	1998
Duplicate Public Private Facility	1998	Sports Entertainment Facility	1998
Duplicate Civic Center	1998	Tavern Beer	1998
Farmers Market Beer and Wine Sales (2 types)	2003	Tavern Beer/Wine	1998
Fruit and/or Wine Distillery	1998	Tavern Wine	1998
Grocery Restricted Fortified Wine/Strong Beer	2003	Tobacco Products Retailer - Branch Office	2005
Grocery Store Beer/Wine	1998	Tobacco Products Distributor	2005
Grocery Store Restricted Fortified Wine	1998	Tobacco Products Retailer - Main Office	2005
Grocery Store Restricted Strong Beer	2003	Wine Distributor	1998
Hotel License	2008	Wine Grower	1998
Interstate Common Carrier	1998	Wine Importer	1998
Keg Sales	2009	Wine Shipper to Consumer	2006

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Agency, License, Year Added	
Lottery	
Lottery Retailer	1987
Revenue	
Tax Registration	1987
Secretary of State	
Bank Corporation	1987
Limited Liability Company	1994
Professional Limited Liability	1994
Professional Services Corporation	1987
Profit Cooperative	2010
Profit Corporation	1987
Public Services Corporation	1987
Unregistered Endorsement	1987
Massachusetts Trust	1987

Note: 1987 was the first year MLS tracked this information

Source: Master License Service as of June 30, 2010

APPENDIX H: GLOSSARY

Terms used in this report

BPD: Business & Professions Division within the Department of Licensing. The MLS program operates within this Division.

Core agency: One of the five state agencies with which most businesses must register. The MLS core agencies are the departments of Employment Security, Labor & Industries, Licensing, Revenue and the Office of the Secretary of State. Primary registrations include tax registration, unemployment insurance, workers' compensation, trade name registration, and corporate registration.

Corporate registration: Corporations are required to register through the Office of the Secretary of State. The MLS acts as a sub-agent for corporate renewals but does not process new registrations.

DOL: Department of Licensing

Endorsement: An agency's approval of a specific business activity.

Flat Fee: A pricing structure that charges a single, fixed fee for a service.

License: Any agency permit, license, certificate, approval, registration, charter, or any form or permission required by law or agency rule. In this report, the term "license" refers to both licenses and registrations.

Location: The address where business is conducted. A business that operates in multiple locations may need different licenses for each location.

Master business application: The form a business uses to apply for licenses or registrations through the MLS.

MLS: Master License Service

NAICS: North American Industry Classification System

Participating agency: One of the state agencies and local governments that offer business licenses or registrations through the Master License System. Ten state agencies and 33 local governments participated in the MLS as of June 30, 2010.

Registration: Notification to a government agency that a business intends to engage in specific operations or to perform specific activities.

Transaction: An activity completed on behalf of a business to establish or update their license or registration accounts. MLS transactions include the processing of master business applications, renewals and account changes.

UBI: Unified Business Identifier. An account number assigned to a business owner and used by multiple state agencies and cities."

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