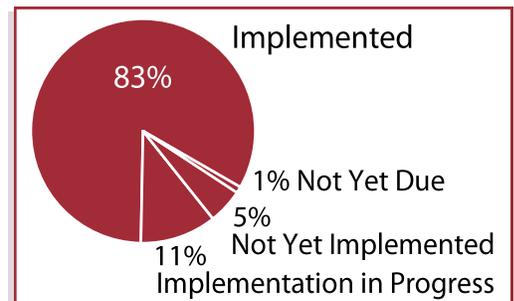


Purpose of the Annual Report

This report is issued after the conclusion of each legislative session to describe the impacts of performance audits JLARC has conducted for the Washington State Legislature.

Agencies Implement JLARC Recommendations

Between 2001 and 2008, JLARC issued over 200 recommendations directly to state agencies. Some 83% of these recommendations have been implemented to date and another 11% are in progress. These accomplishments cover a wide variety of agency performance improvements, spanning many areas of state government. *Learn more on page 3.*



The Legislature Acts on JLARC's Work

The Legislature uses JLARC's studies and recommendations to impact change through the legislative process. Several bills were passed or considered in the 2009 Legislative Session related to improvement opportunities identified by JLARC. *Learn more on page 4.*

JLARC's Work Produces Results Several Ways

JLARC gets results by identifying opportunities to improve the effectiveness, efficiency, and accountability of state programs. These results reflect our efforts to help the Legislature improve services and promote accountability through its two primary roles: (1) to provide oversight of the management of government agencies, and (2) to pass legislation that authorizes and governs how public services and public policy are carried out.

The amount of benefits JLARC produces each year that are either financial or non-financial depends on the assignments it receives from the Legislature. JLARC has historically achieved significant financial savings from its recommendations. The savings impact from 1990 to 2008 is \$494M in one-time savings and \$91M in annual ongoing savings. In recent years, assignments from the Legislature have focused more on non-financial objectives.

Many of the benefits from JLARC's work cannot be measured purely in dollar terms. So, like other well-regarded audit organizations such as the congressional Government Accountability Office, JLARC measures both the financial and non-financial benefits it produces.

While non-financial benefits are harder to quantify, they are accomplished when:

- ▶ Agencies implement audit recommendations,
- ▶ The Legislature acts on JLARC's work, and
- ▶ JLARC informs policymakers and stakeholders.

COMMITTEE MEMBERS

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Keenan Konopaski

About JLARC: the Legislature's Auditor

The Joint Legislative Audit and Review Committee (JLARC) works to make state government operations more effective, efficient, and accountable. The Committee is comprised of an equal number of House and Senate members, Democrats and Republicans.

JLARC pursues its mission by conducting performance audits, program evaluations, sunset reviews, and other analyses. Assignments to conduct studies are made by the Legislature and the Committee itself. Based on these assignments, JLARC's non-partisan staff auditors, under the direction of the Legislative Auditor, independently seek answers to audit questions and issue recommendations to improve performance.

Work by JLARC staff is conducted using Generally Accepted Government Auditing Standards. These standards ensure audit conclusions are independent, objective, and accurate. JLARC's authority is established in Chapter 44.28 Revised Code of Washington.

In addition to the work done by JLARC auditors, the performance of government agencies in Washington may also be evaluated by the separately elected State Auditor. While performance audits by the State Auditor are independent of JLARC and the legislative branch, JLARC works closely with the State Auditor to coordinate work plans and avoid duplication of effort. In addition, the legislators serving on JLARC hold public hearings on the State Auditor's performance audits.

While recommendations are key aspects of performance auditing, the Legislature also recognizes that our products do not always include recommendations.

Informational reports can be just as useful as those that contain recommendations.



Agencies Implement JLARC Recommendations

Agency actions resulting from JLARC studies are real and result in important tangible benefits to the state and its citizens. Examples include:

DSHS updates critical online health care coverage information

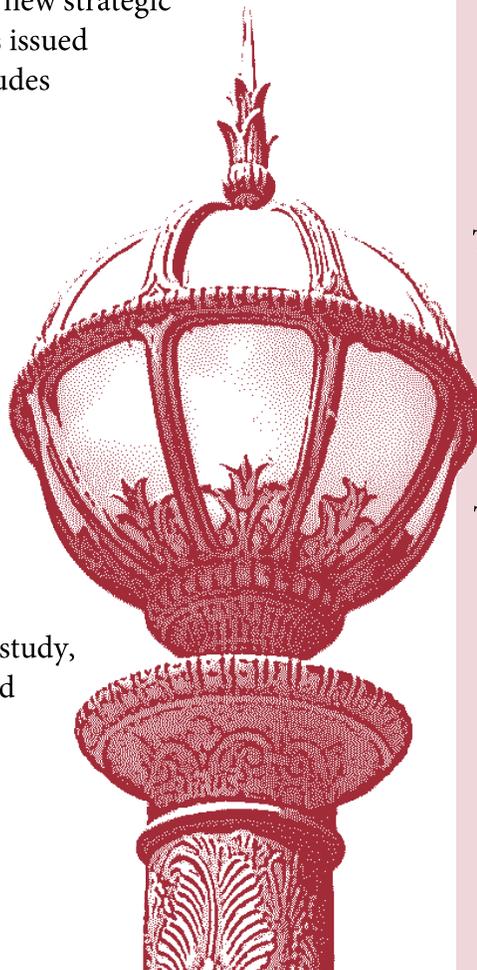
During the course of JLARC's study of eligibility for state health care coverage, we identified outdated information on DSHS's public website and inconsistencies among administrative manuals and rules. Soon after the study was issued, the Department of Social and Health Services posted WAC amendments online, including temporary and emergency WACs, updated its online publications list, and corrected inconsistencies in its user manuals.

DNR updates strategic plan for state aquatic lands

During the course of JLARC's study of the management of state-owned aquatic lands, we discovered that the last strategic plan focused specifically on the management of state-owned aquatic lands dated back to 1992. Although DNR was working on a new strategic plan, it was not yet complete. The new plan was issued following the release of JLARC's study and includes measurable goals and performance measures as recommended by JLARC.

Six state programs analyze potential savings of joining state prescription drug purchasing group

During the course of JLARC's study of the state's Prescription Drug Purchasing Consortium, we discovered that only two of the eight programs required by statute were participating in the Consortium. Those six programs had not completed the cost analyses required for a possible exemption from participation. Following the release of JLARC's study, five programs have completed their analyses and the cost analysis for the sixth program is underway.



A BRIEF HISTORY OF JLARC

2006

The Legislature establishes the Citizen Commission for Performance Measurement of Tax Preferences and directs JLARC to support the Commission by reviewing all tax preferences every ten years.

2000

The Legislature extends its Sunset Act, administered by JLARC, to 2015.

1996

The Legislature updates its performance audit statutes and changes the name of its auditing agency to the Joint Legislative Audit and Review Committee (JLARC).

1977

The Legislature establishes the Sunset Act, with the LBC conducting program and fiscal reviews of agencies scheduled for termination.

1971/1973

The Legislature authorizes the LBC to conduct management surveys, program reviews, and performance audits.

1951

The Legislature creates the Legislative Budget Committee (LBC).

JLARC STUDY PROCESS



Criteria for Establishing JLARC Work Program Priorities

- Is study consistent with JLARC mission? Is it mandated?
- Is this an area of significant fiscal or program impact, a major policy issue facing the state, or otherwise of compelling public interest?
- Will there likely be substantive findings and recommendations?
- Is this the best use of JLARC resources: For example:
 - ▶ Is JLARC the most appropriate agency to perform the work?
 - ▶ Would the study be nonduplicating?
 - ▶ Would this study be cost-effective compared to other projects (e.g., larger, more substantive studies take longer and cost more, but might also yield more useful results)?
- Is funding available to carry out the project?

The Legislature Acts on JLARC's Work

Legislature swiftly corrects formula for providing funds to cities and counties

During the course of JLARC's study of distributions from the City-County Assistance Account, we discovered that the distribution formula did not account for funds to be provided to local governments that lose tax revenue under the multi-state streamlined sales and use tax agreement. JLARC recommended that the Department of Revenue report on the interaction between these two local government funding sources. However, before that could occur, the Legislature passed, and the Governor signed, legislation during the 2009 Session to incorporate streamlined sales tax mitigation funds into the distribution formula for the City-County Assistance Account.

Legislature replaces outdated funding formula for K-12 student transportation

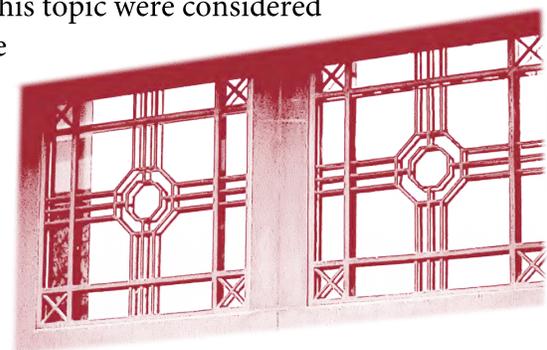
During the course of JLARC's study of state funding for K-12 student transportation, we found that the current funding method failed to cover districts' actual transportation costs. JLARC recommended that the Legislature establish a new funding method that reflects districts' costs. In 2007, the Legislature required the Office of Financial Management to contract for the development of two options for a new funding method. In 2009, the Legislature passed, and the Governor signed, legislation adopting a new funding method as recommended by the contracted analysis.

Legislature considers 18 bills addressing JLARC recommendations on existing tax preferences

During the 2009 Session, the Legislature considered 18 bills that addressed recommendations from the 2007 and 2008 tax preference performance reviews produced by JLARC staff. One of those bills, which provides environmental tax incentives, was enacted.

JLARC's inventory of state boards and commissions spurs lively public debate

Following the release of JLARC's inventory of state boards and commissions, the future of those entities became the focus of the Governor, members of the Legislature, and the press. Seven bills on this topic were considered during the 2009 Session, with one of those bills being enacted. That bill established the intent of the Legislature, before the 2010 Session, to identify criteria to evaluate those advisory boards, committees, and commissions that may be eliminated or consolidated. The bill also eliminated 18 such entities.



Legislature endorses use of life-cycle cost analysis for awarding housing assistance funds, but Governor vetoes

In conducting JLARC's study comparing housing assistance programs, we relied on life-cycle cost analysis to compare the costs of those programs. When the study was issued, JLARC recommended that the state include life-cycle cost analysis in evaluating proposals for funding. Consistent with this recommendation, the Legislature included a proviso in the 2009-11 Operating Budget requiring counties receiving certain housing funds to include life-cycle cost analysis as one of the criteria in selecting proposals to fund. However, the Governor vetoed the proviso. Two bills were also considered during the 2009 Session that would have directly implemented JLARC's recommendation, but neither was enacted.

Legislature acts after JLARC highlights role of housing in child welfare cases

In surveying parents whose children had been placed in foster care, JLARC learned that over one-third of respondents had lost their home or living arrangements as a result of the dependency cases. During the 2009 Session, the Legislature passed, and the Governor signed, a bill requiring courts to address housing issues with families whose children have been removed from the home due to child abuse or neglect.

New JLARC Assignments Originated in the 2009 Legislative Session

During the 2009 Legislative Session:

- ▶ JLARC received nine new study assignments, all of which are due during the 2009-11 Biennium.
- ▶ There were an additional 16 studies proposed in legislation, which either did not pass or JLARC's assignment was removed in amendments to the original bills.
- ▶ JLARC prepared 25 fiscal notes at the request of legislators and legislative staff.

See page 8 for a full list of upcoming JLARC studies.

JLARC Informs Policymakers and Stakeholders

JLARC holds regular meetings to review the results of its audits. In addition, JLARC's work is also frequently presented or discussed in front of other audiences, such as legislative committees, professional conferences, work groups, boards or commissions, university classrooms, and the media.

Over the last year, JLARC's work was publicly discussed before 14 different venues, including eight presentations at legislative committee meetings. In addition, JLARC held seven public hearings on performance audits conducted by the state's separately elected State Auditor.

JLARC AWARDS

2008 Excellence in Research Methods Award
Comparing Costs and Characteristics of Housing Assistance Programs

2008 Impact Award
Tax Preference Performance Review: Beef Processors

2007 Impact Award
Review of Port Angeles Graving Dock

2006 Impact Award
DNR Fire Suppression Study

2005 Impact Award
Washington Medicaid Study

2004 Impact Award
Higher Ed Facilities Preservation Study

2003 Impact Award
Capital Study of DDD Residential Habilitation Centers

2002 Impact Award
Investing in the Environment: Environmental Quality Grant & Loan Programs Performance Audit

2001 Impact Award
Mental Health System Performance Audit

2000 Impact Award
Rural Area Marketing Plan Evaluation

1999 Excellence in Evaluation Award
Workers Compensation Performance Audit and Department of Corrections Performance Audit

1998 Impact Award
Nursing Home Reimbursement System Performance Audit

1997 Impact Award
State Investment Board Performance Audit

1992 Excellence in Research Design and Methodology
Basic Health Plan Study



Recently Completed JLARC Studies

JLARC has issued 187 reports since 1995, covering a wide variety of programs.

Ongoing Performance Audits of Tax Preferences

JLARC continues to conduct reviews of tax preferences under the guidance of Engrossed House Bill 1069 (2006). The 2009 report covers 25 tax preference reviews, with many of those preferences dating back to the 1930s. The Legislature's tax preference review system also includes a role for the Citizen Commission for Performance Measurement of Tax Preferences.

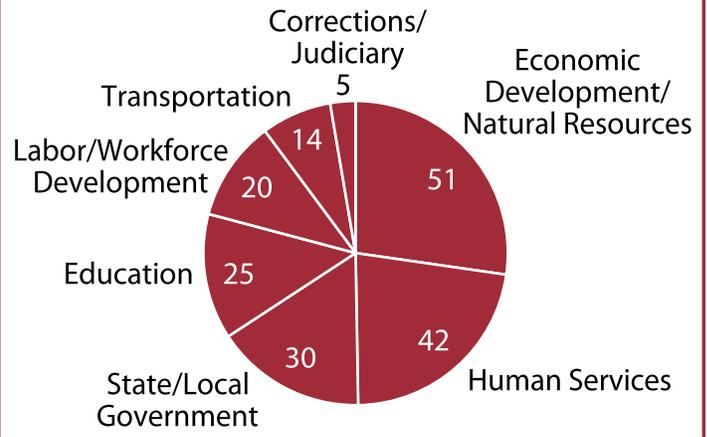
Review of Oil Spill Risk and Comparison to Funding Mechanism

In 2007, the Legislature directed JLARC to review the sources of oil spill risk and compare the sources of risk to the sources of revenue that fund the state's oil spill prevention, preparedness, and response programs. JLARC's review explores four different approaches to estimate the future of oil spill risk in Washington's waters. No matter which of the four approaches is used, the results show that oil spills are likely to occur across the state from many sources in both large and small amounts, rather than concentrated in just one source such as oil tankers. The review also concludes that the sources of revenue for the state's oil spill programs and the sources of risk are not directly aligned. The report identifies a number of practical issues for the Legislature to consider if it is interested in creating a risk-based revenue structure.

Comparing Costs and Characteristics of Housing Assistance Programs

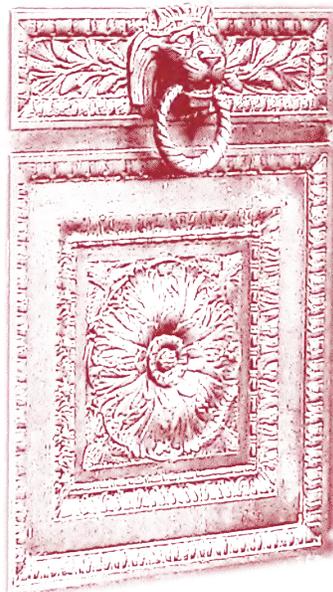
In 2007, the Legislature directed JLARC to conduct an evaluation and comparison of the cost efficiency of rental housing voucher programs versus other approaches to providing housing assistance such as capital subsidies. While JLARC's analysis shows that voucher programs generally cost less than capital subsidies, the report also notes that there are other factors to consider when weighing alternative approaches to providing housing assistance.

Policy Categories of 187 JLARC Reports Since 1995



Medicaid Prescription Drug Purchasing: State Preferred Drug List

JLARC sponsored this study after cost savings estimated in 2003 related to creation and implementation of a preferred drug list did not fully materialize in the 2003-05 Biennium. JLARC's review shows that the process three state agencies use to develop the preferred drug list complies with all applicable statutory and regulatory requirements. The study identifies six positive indicators that savings have been achieved in Medicaid prescription drug expenditures since the creation of the preferred drug list, though a number of factors make it difficult to isolate the exact savings. The report notes that, for budget development purposes, the Legislature may no longer need specific estimates of Medicaid cost savings related to the preferred drug list.



State Health Care Coverage Eligibility

The state determines eligibility and participates in funding 72 health care coverage programs in three main categories: employment-related programs, social services (or Medical Assistance) programs, and expansion programs. At the direction of the Legislature in 2007, JLARC prepared an inventory of all 72 programs and also compared eligibility criteria and eligibility determination processes across programs.

Evaluation of the Accuracy of Capital Project Cost Estimates

In 2008, the Legislature directed JLARC to evaluate the accuracy of capital project cost estimates prepared by state agencies for their capital budget requests, focusing on state agencies with large capital programs. JLARC reviewed development of cost estimates for major projects at the ten state agencies that account for 80 percent of state capital projects constructed since 2002. JLARC's review concludes that between 71 and 74 percent of the project cost estimates fell within the expected cost accuracy ranges identified by the Association of Cost Engineering International. The study also finds that the processes state agencies use to develop their cost estimates are consistent with professional practices. The report makes recommendations for improved reporting that will enhance any future evaluations of the accuracy of capital project cost estimates.

Review of Mineral Rights and Conveyance of State Lands

At statehood, the federal government granted land to the state for the support of public schools, colleges, and other state institutions. State law governs the right to transfer natural resources found on these state lands. For the purposes of transfers, state law has set up two basic categories of natural resources: minerals and valuable materials. At the direction of the Legislature in 2008, JLARC reviewed a number of transactions involving either reserved mineral rights or valuable materials. For the case studies reviewed, the study determines that the state used the appropriate processes for transferring minerals and valuable materials.

Review of Distributions from the City-County Assistance Account

In 2005, the Legislature created the City-County Assistance Account (CCAA) to provide funding to local governments after the repeal of the Motor Vehicle Excise Tax (MVET). The legislation also directed JLARC to review account distributions. JLARC's review shows that a majority of CCAA funds are distributed to low tax base jurisdictions as they would have been under the former MVET funding for equalization. The report included recommendations regarding the operation of the CCAA, which the Legislature addressed with legislation in 2009.

Performance Audit of the Prescription Drug Consortium

Concerned with rising prescription drug costs, the Legislature authorized the creation of the Prescription Drug Purchasing Consortium in 2005 and also called for a JLARC performance audit. The legislation directed eight state-purchased health care programs to participate in the Consortium unless the programs can demonstrate to the Health Care Authority that greater prescription drug discounts and aggregate cost savings can be achieved as a result of federal programs or other drug purchasing arrangements. A major finding of the study was that six of the eight state programs were not participating in the Consortium, nor had they completed the required cost analyses to demonstrate greater potential savings through other arrangements. Since the completion of the JLARC report, five of the programs have completed their required cost analyses, and the analysis by the sixth program is underway. The five programs determined that they can achieve greater savings using alternatives to the Consortium.



Review of the Management of State-Owned Aquatic Lands; Leasing of State-Owned Aquatic Lands

The Department of Natural Resources manages more than 2.6 million acres of state-owned aquatic lands. In 2007, the Legislature directed JLARC to conduct two studies: a broad performance audit of the management of these lands, and a second, more targeted study on alternative approaches to lease rates. The performance audit includes several recommendations to the Department to improve asset management and to comply with various statutes. The lease rate study explores the advantages and disadvantages of 11 alternative approaches to setting lease rates for state-owned aquatic lands. Different alternatives receive higher ratings depending on whether the Legislature wants to emphasize payment of market rent, equitable treatment, or administrative burden.

On the Horizon: Upcoming JLARC Studies

Studies due to be completed in the coming months and through the 2009-11 Biennium:

- ▶ Performance Audits of Tax Preferences
- ▶ Health Professions Disciplinary Activities Workload Model Review
- ▶ Performance Review of the Home Care Quality Authority
- ▶ Review of Child Support Guidelines and Schedule
- ▶ Review of Scoping and Cost Estimates for Transportation Highway Improvement and Preservation Projects
- ▶ K-12 Facility Inventory Project: Phase 2
- ▶ Analysis of Credit Card Payment Options at WSDOT
- ▶ Study of the Relationship Between Cost and Size of School Districts
- ▶ Evaluation of the Department of Early Learning
- ▶ Evaluation of Information Sharing and Attainment of Medicaid Services for Offenders Released into the Community
- ▶ Review of the Operations of the DSHS DDD Employment and Day Services Program
- ▶ Motion Picture Industry
- ▶ Office of Regulatory Assistance Sunset Review
- ▶ Review of Revenue, Expenditures, and Performance Outcomes for 4-Year Public Higher Education Institutions
- ▶ Study of State Recreational Boating Programs
- ▶ Review of Mitigation Provisions in Washington's Streamlined Sales and Use Tax Agreement
- ▶ Performance Audit of Washington State Ferries Capital Cost Accounting Practices
- ▶ Review of Washington's Workplace Safety and Health Program
- ▶ Performance Review of the High-Performance Public Buildings Program



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