



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

LEGISLATIVE AUDIT  
DIVISION

12P-05

PERFORMANCE AUDIT

# *One-Stop Business Licensing Program*

*Department of Revenue  
Board of Review*

OCTOBER 2012

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**PERFORMANCE AUDITS**

Performance audits conducted by the Legislative Audit Division are designed to assess state government operations. From the audit work, a determination is made as to whether agencies and programs are accomplishing their purposes, and whether they can do so with greater efficiency and economy.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Members of the performance audit staff hold degrees in disciplines appropriate to the audit process.

Performance audits are performed at the request of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

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October 2012

The Legislative Audit Committee  
of the Montana State Legislature:

This is our performance audit of the One-Stop Business Licensing Program, administered by the Citizen Services and Resource Management Division within the Department of Revenue, with policy direction provided by the Board of Review.

This report presents audit findings and includes recommendations to the Department of Revenue to strengthen program administration by further developing formal operating processes and defining the delinquent notice process. In addition, this report includes a recommendation to the legislature to reevaluate the Small Business Licensing Coordination Act. Written response from the Department of Revenue is included at the end of this report.

We wish to express our appreciation to the personnel of the Department of Revenue and the Board of Review. Additionally, we would like to thank the agencies that participate in the One-Stop Business Licensing Program for their cooperation and assistance during the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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# MONTANA LEGISLATIVE AUDIT DIVISION

## PERFORMANCE AUDIT

### One-Stop Business Licensing Program

Department of Revenue

Board of Review

OCTOBER 2012

12P-05

REPORT SUMMARY

Audit work revealed the need for the Department of Revenue to strengthen some elements of program administration and for the legislature to reevaluate the Small Business Licensing Coordination Act.

### Context

The legislature passed the Small Business Licensing Coordination Act (Act) in 1981 in order to streamline and minimize the total government and business costs of business licensing. The Department of Revenue (Department) fulfills the Act's provisions through the One-Stop Business Licensing Program (One-Stop program). The Act also establishes a Board of Review, whose role is to provide policy direction to the Department in the establishment and operation of the One-Stop program.

The One-Stop program issued over 11,100 individual licenses to over 5,100 business entities and processed nearly \$2 million in license/permit fees in fiscal year 2012, providing convenience to businesses around the state. The program, administered by the Department, currently receives and processes license applications and associated fees, issues licenses, and issues renewal and delinquent notices for seven business licenses on behalf of five state agencies.

Businesses that require multiple license types at a single location, such as gas stations and grocery stores, can submit a single payment and master application to the One-Stop program instead of a separate payment and application to a separate agency for each license. The

Department maintains a website where businesses can access general information on operating a business in Montana, information on One-Stop program licenses (including supplemental forms and requirements), and the master application for licenses issued through the One-Stop program. The authority to issue and enforce a license or permit remains with the agency statutorily authorized to issue that license or permit. Any inspections and monitoring required to obtain licenses and permits issued via the One-Stop program are performed by the agency with licensing authority.

### Results

Our audit work revealed many aspects of the One-Stop program work well and businesses and participating agencies are generally satisfied with program operations. However, some elements of program administration could be strengthened to enhance the One-Stop program, gain efficiencies, and better serve businesses and agencies. These include the Department developing additional documented operating processes for the program, and working through the Board of Review to define the delinquent notice process.

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Audit work determined that the legislature needs to reevaluate whether the Act meets current business licensing needs. Currently, the One-Stop program streamlines the licensing process for many businesses by offering the convenience of a single license application and payment, but it is not necessarily timely for businesses due to its non-online, paper-driven process.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (12P-05) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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# Chapter I – Introduction

## **Introduction**

The statutory purpose of the Small Business Licensing Coordination Act (Act) is to provide a convenient, accessible, and timely system for the business community to acquire and maintain the necessary state registrations and licenses to operate a business (§30-16-102(4), MCA). The Department of Revenue (Department) is the entity responsible for administering the provisions of the Act and operating a Small Business Licensing Coordination Center. This coordination center and the activities it conducts under the Act are referred to as the One-Stop Business Licensing Program (One-Stop program). The One-Stop program serves as a hub or single point of contact for businesses seeking a variety of licenses. Primary businesses served by the One-Stop program include convenience stores, grocery stores, gas stations, and warehouse stores. While the Department is responsible for implementing many of the provisions of the Act and administering the One-Stop program, the authority to issue and enforce a license or permit remains with the agency statutorily authorized to issue that license or permit (§30-16-204, MCA). In addition, any inspections and monitoring required to obtain licenses and permits issued via the One-Stop program are performed by the agency with licensing authority. The Act also establishes a Board of Review, whose role is to provide policy direction to the Department in the establishment and operation of the One-Stop program. The One-Stop program currently issues seven different licenses from five different state agencies.

## **Audit Objectives**

Based on our initial audit assessment of the One-Stop program, we developed two audit objectives:

1. Determine whether the One-Stop Business Licensing Program is administered using efficient business processes and practices.
2. Determine whether statutory requirements of the Small Business Licensing Coordination Act have been implemented.

## **Audit Scope**

Audit work focused on the One-Stop program and the administrative activities of the Department. Since statute establishes the Board of Review (Board) to provide policy direction to the Department in the establishment and operation of business licensing and registration system, Board activities were included. Audit scope also included the following agencies that the Act names to the Board and/or names to participate in the implementation of the Act:

- ◆ Department of Agriculture
- ◆ Department of Environmental Quality

- ◆ Department of Justice
- ◆ Department of Labor and Industry
- ◆ Department of Livestock
- ◆ Department of Public Health and Human Services
- ◆ Department of Revenue
- ◆ Public Service Commission

Audit scope focused on determining how One-Stop program services have streamlined licensing activities, and identifying areas for improvement within One-Stop program operations. The audit focused primarily on records and activities from fiscal years 2011 and 2012.

### **Audit Methodologies**

To address our audit objectives, we conducted the following audit work:

- ◆ Reviewed statute, administrative rules, and related legislation
- ◆ Reviewed Department biennium goals and objectives
- ◆ Interviewed staff from the following:
  - ◇ Department of Revenue
  - ◇ Participating agencies
  - ◇ Other agencies with online licensing programs
  - ◇ Other states with similar one-stop licensing programs
  - ◇ Participating businesses and trade associations
- ◆ Reviewed One-Stop program reports, information, and system records
- ◆ Analyzed documented procedures for the One-Stop program
- ◆ Observed One-Stop program operations
- ◆ Observed licensing operations of participating agencies and reviewed related materials
- ◆ Examined a random sample of One-Stop program license records
- ◆ Analyzed program financial data, including cost-per-license and online system cost estimates
- ◆ Obtained and reviewed a Department survey of businesses licensed through the One-Stop program
- ◆ Attended and observed Board of Review meetings and reviewed related materials
- ◆ Examined financial controls over payment processing
- ◆ Reviewed billing practices

## **Management Memorandum**

A management memorandum is a written notification to an agency for issues that should be considered by management, but do not require a formal agency response. We issued a management memorandum to the Board addressing the need to adopt administrative rules governing the identification and use of electronic forms of signature to fulfill licensing requirements, as required by §30-16-104(1), MCA.

## **Background**

The Act was designed to streamline licensing for Montana businesses by bringing together various entities that are involved in licensing including Montana businesses, the Department, the Board, and participating state agencies. The following sections of the report provide information regarding the various entities involved in the program and discusses program funding.

## **Montana Businesses Served by the One-Stop Program**

Since enacted in 1981, the Act and its One-Stop program have evolved over the years to serve a certain niche of Montana businesses, namely those that require various licenses at a single location. Gas stations, convenience stores, and grocery stores are the most common businesses the One-Stop program serves. Moreover, farm and ranch operations are also served through the One-Stop program since all scale licenses are issued through the program. Instead of submitting to separate agencies a separate application and payment for each license, the One-Stop program provides a means for businesses to submit one master application and payment for any number of the seven licenses issued through the One-Stop program, thereby creating convenience and efficiency for these businesses. According to the Department, at July 23, 2012, there were 5,130 business entities receiving licenses through the One-Stop program. A business entity refers to the overall corporate unit, and each entity may have multiple business locations in the state. Each business location requires its own licenses.

## **Department Administration of the One-Stop Program**

The One-Stop program is located in the Citizen Services Bureau of the Citizen Services and Resource Management Division of the Department. The program has one full-time employee (the One-Stop program specialist). In addition, staff from the Department's cashiering, accounting, call center, and information technology units support One-Stop program operations. The primary responsibilities of the Department are to operate the Small Business Licensing Coordination Center, process master license applications, issue renewals and delinquent notices, and process payments. The Department maintains a website where businesses can access general information on operating a business in Montana, information on One-Stop program

licenses (including supplemental forms and requirements), and the master application for the licenses issued through the One-Stop program. Additionally, the Department's call center fields questions from citizens regarding starting a business in Montana, business licensing in general, licenses available through the One-Stop program, and the One-Stop program license application process.

According to Department records, in fiscal year 2012 the One-Stop program processed nearly \$2 million in license/permit fees and issued over 6,400 master licenses. A master license is the document businesses receive from the One-Stop program and may include any combination of the seven individual licenses issued through the program. The 6,400-plus master licenses issued in fiscal year 2012 included over 11,100 individual licenses. The One-Stop program also issued almost 6,400 renewal notices and over 2,000 delinquent notices in fiscal year 2012 to licensees on behalf of participating agencies.

### **One-Stop Program Funding**

The One-Stop program's estimated \$131,089 annual operating expenses are funded partially through a \$54,346 State Special Revenue Fund appropriation. In addition, participating agencies are charged \$4.37 for each master license issued through the One-Stop program, totaling just over \$28,400 in fiscal year 2012. Remaining expenses are absorbed by the Department's general operating budget. Fee payments for individual licenses that accompany master applications and renewals are processed by the Department and transferred to the respective licensing agencies. The One-Stop program does not charge licensees a fee for its services.

### **Board of Review**

Per §30-16-302(1), MCA, the Board currently includes the directors of the Departments of Agriculture, Environmental Quality, Justice, Labor and Industry, Livestock, Public Health and Human Services, and Revenue. Also included on the Board are a member appointed by the president of the senate and a member appointed by the speaker of the house. The Board meets quarterly, and is charged with providing policy direction to the Department and establishing interagency policy and guidelines for the Small Business Licensing Coordination Center. The Board is the formal means by which agencies that participate in the One-Stop program provide feedback. Board meetings typically involve agency directors (or their designees) reviewing One-Stop program statistics (e.g., number of licenses issued, amount of money received and processed), working on coordination issues, and discussing ways to streamline or improve services provided via the One-Stop program.

## **Participating Agencies**

At present, five agencies each issue one or two licenses through the One-Stop program:

- ◆ Department of Agriculture:
  - ◇ Nursery license
- ◆ Department of Environmental Quality:
  - ◇ Underground storage tank permit
- ◆ Department of Labor and Industry:
  - ◇ Weighing device (scale) license
  - ◇ Meter (gasoline, diesel, liquid petroleum pump) license
- ◆ Department of Public Health and Human Services:
  - ◇ Retail food establishment license
- ◆ Department of Revenue:
  - ◇ Tobacco products license
  - ◇ Off-premise beer and/or wine license

Businesses renew these licenses annually through the One-Stop program. As noted earlier, the One-Stop program receives and processes applications and associated license/permit fees, issues licenses, and issues renewal and delinquent notices, but the participating agencies remain the licensing authority. Furthermore, businesses must deal directly with participating agencies for any supplemental license requirements, such as inspections.

## **Report Contents**

The remainder of this report contains two chapters in which we discuss our audit findings and recommendations. Specifically, Chapter II examines Department administration of the One-Stop program and Chapter III explores legislative considerations regarding the Small Business Licensing Coordination Act.



## Chapter II – Department Administration of Program

### **Introduction**

The Department of Revenue (Department) is responsible for the day-to-day operations of the licensing center, and the majority of staff activities focus on processing licenses issued through the One-Stop program and providing information to businesses seeking assistance. One audit objective was to determine whether the One-Stop program is administered using efficient business processes and practices. Audit work revealed many aspects of the program work well and businesses and participating agencies are generally satisfied with operations. Both groups benefit from the Department's customer service to answer applicant questions and to accommodate participating agency requests, such as additional reports in the One-Stop system. A recent Department survey of businesses with multiple licenses through the One-Stop program reinforces these attitudes: 96 percent of respondents rated the One-Stop program's service as either "good" or "very good." Similarly, audit testing showed financial controls are in place over payment receipt and processing licensing fees at the Department. Audit work also showed One-Stop program administration could be strengthened by formally defining some existing practices.

### **Further Develop Documented Operating Processes**

Although the One-Stop program has some documented procedures in place to instruct staff in One-Stop program operations, these operating processes should be updated. Their system screen shot document and desktop procedure document denote general responsibilities of licensing specialists and provide instructions on inputting data on the One-Stop system and Virtual Terminal (used for credit card payments). However, current procedures need updating to reflect procedural changes One-Stop program staff implemented. These include scanning initial applications and licensing documents, and process automations such as the nightly general ledger transfer to Statewide Accounting, Budgeting, and Human Resources System (SABHRS), weekly printing of license document batches, and generating monthly renewal, and delinquent notices. We also noted written procedures either do not exist or are not complete for some One-Stop program operations:

- ◆ Processing nonsufficient funds
- ◆ Transferring business ownership
- ◆ Performing write-offs and refunds in the One-Stop system if requested by a participating agency
- ◆ Saving pertinent agency correspondence to document agency licensing requests
- ◆ Using the notes section in the licensee's profile

Best business practices recommend organizations develop comprehensive policies and procedures to help ensure consistency of operations over time and as staff change.

### **Formal Operating Processes Would Be Beneficial Given Nature of One-Stop Program**

The nature of the One-Stop program – with staff from multiple agencies using the licensing system and delineating tasks between themselves and One-Stop program staff, coupled with the number of different licenses issued – highlights the importance of documented and complete One-Stop program policies and procedures. In addition, much institutional knowledge rests with the One-Stop program’s one FTE, who is retirement eligible, highlighting the need for more complete One-Stop program documentation. While the procedures developed by program staff provide a good basis for documenting basic operations, this effort should be expanded to develop a comprehensive set of procedures for the One-Stop program. This would ensure complete and consistent documentation of One-Stop program operations and provide for a smoother transition should staff changes occur.

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#### **RECOMMENDATION #1**

*We recommend the Department of Revenue further develop formal operating processes for the One-Stop Business Licensing Program.*

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### **Improve Delinquent Notice Process for One-Stop Program**

The Department sends renewal notices to each business licensed through the One-Stop program prior to expiration of the business’ licenses. If a business does not renew their license upon expiration, the Department issues a delinquent notice. Currently, the Department mails the business a delinquent notice at 30 days, 60 days, 90 days, six months, and 11 months delinquent – up to five notices per year. This process was designed per the request of one participating agency. The One-Stop system will continue to issue delinquent notices to a business until the business pays to renew their license or the licensing agency inactivates or cancels the license in the One-Stop system.

### **One-Stop Program and Agencies Issue Numerous Delinquent Notices**

Audit work revealed the Department issued a total of 2,011 delinquent notices in fiscal year 2012 through the One-Stop program, which is similar to prior years. Audit

work further shows some businesses licensed through the One-Stop program received numerous delinquent notices with 177 businesses receiving more than one notice during fiscal year 2012. As of July 2012, there were 46 businesses that were delinquent for anywhere between 12 months and 4 years. These businesses received between 5 and 19 delinquent notices over the period of their delinquency. The Department has continually issued delinquent notices to three of these businesses since early 2009.

In addition to delinquent notices issued by the One-Stop program, the agency statutorily authorized to issue the particular license may issue delinquent notices. For example, Department of Environmental Quality and Department of Labor and Industry also send out delinquent notices, effectively duplicating One-Stop program efforts. As a result, businesses receive delinquent notices not only from the One-Stop program but also from other agencies for the same expired licenses.

### **Responsibilities for Issuing Delinquent Notices not Defined**

The roles and responsibilities of the One-Stop program and participating agencies for dealing with delinquent licensees are not defined. There is no formal documentation that establishes which agencies are responsible for issuing delinquent notices, the number and frequency of notices to be sent, or a “cut-off date” when the licensing agency formally assumes responsibility for pursuing the delinquent license and account. Although there is a Memo of Understanding with one agency that addresses delinquent licensees, nothing comprehensive exists. Staff both at the One-Stop program and participating agencies agree that it is the licensing agency’s responsibility to pursue delinquent licensees since agencies are the licensing and enforcement agency. The One-Stop system includes a “delinquent accounts” report that One-Stop program staff indicated exists for agencies to track and follow up on delinquent licensees.

### **Other States’ One-Stop Programs Have Little Involvement With Issuing Delinquent Notices**

The State of Washington has a similar one-stop licensing program, the Business Licensing Service (BLS). According to staff, BLS issues one delinquent notice to businesses two weeks after the license expiration date. Upon issuing, BLS reports delinquents to the relevant licensing agencies and it is the agencies’ responsibility to pursue delinquent businesses. BLS has no further involvement. Michigan’s Business One Stop Program issues no delinquent notices; notices are handled instead by the licensing agency.

### **Eliminate Duplication in Issuing Delinquent Notices**

Efficiencies would be gained – and costs decreased – by reducing the number of delinquent notices the One-Stop program issues. Since there is currently duplication

of effort by the One-Stop program and those participating agencies that also issue delinquent notices, eliminating this duplication would also improve operations and improve the credibility of state government. The Department needs to take steps to streamline the process and define responsibilities of the One-Stop program and participating agencies for issuing delinquent notices to businesses that fail to renew their licenses. The Board of Review serves as the avenue to provide policy direction to the Department.

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**RECOMMENDATION #2**

*We recommend the Department of Revenue, working through the Board of Review, define the delinquent notice process for the One-Stop Business Licensing Program and eliminate duplication.*

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## Chapter III – Legislative Considerations

### **Introduction**

Another audit objective was to determine whether statutory requirements of the Small Business Licensing Coordination Act (Act) have been implemented. The Act (Title 30, Chapter 16, MCA) was legislated in 1981, at a time when business community access to state government licensing services and information was more complicated and cumbersome. With the advancement of technology, interaction among citizens, businesses, and government has changed considerably, and access to government services is much easier and convenient. Given these changes, the legislature has made several revisions to the Act over the past 31 years to better align the Act's original intent with the realities and needs of a centralized business licensing service.

The original Act outlined a licensing program whereby state business licenses and permits would be issued through one central physical location – the Small Business Licensing Coordination Center – which would maintain paper copies of applications and information for many state-issued business licenses and permits. As technology has progressed through the past three decades and the relationship between technology and government services (e-government) has solidified, the need for a physical location to house license information on paper has become less relevant. Today, the One-Stop Business Licensing Program website serves as the Small Business Licensing Coordination Center; with this website, anyone, at any time, from virtually any location can access licensing information for any One-Stop program license. Considering these changes, we expanded audit objectives to assess the Act as it was originally implemented with the changes technology has made possible since.

### **Past Legislative Efforts to Revise the Act**

Since the Act's inception, there have been legislative efforts to better align the Act with the dynamic needs of business licensing. For example, as required by the original Act, the governor initially designated the Department of Commerce to administer the Small Business Licensing Coordination Center established by the Act, but later legislation transferred administration to the Department of Revenue. The legislature established the Board of Review (§30-16-302, MCA) in 1995 in order to provide policy direction to the Department in the administration of a system to carry out the provisions of the Act, and granted rule-making authority to the Board in 1997. Also in 1995, the legislature directed various state agencies to have "full participation in the implementation of [the Act]" (§30-16-303(1), MCA). The legislature has amended participating agencies included in the Act many times, the last time being in 2005.

## **Current Act Not Relevant to All Agencies**

There are two state agencies directed in §30-16-303(1), MCA, to fully participate in the One-Stop program – Department of Justice (Justice) and Public Service Commission (PSC) – that currently do not issue any licenses through the One-Stop program. Nonetheless, both these agencies issue licenses/permits to Montana businesses. For example, Justice is responsible for gambling licenses, drivers' licenses, and vehicle registrations, while PSC controls natural gas supplier licenses and motor carrier permits. Justice does attend Board of Review meetings, however, thereby fulfilling its mandate to participate on the Board per §30-16-302(1), MCA.

Audit staff spoke with the Department of Livestock (Livestock), which formerly participated in the One-Stop program and Board of Review. While Livestock is statutorily included in the Board of Review, they have not attended a quarterly Board meeting since April 2011. In addition, Livestock previously issued egg wholesaler licenses through the One-Stop program. According to Livestock management, they determined it was more efficient and cost-effective for them to issue this license themselves and cited difficulty maintaining contact with this industry when issuing licenses through One-Stop program. Livestock has not sought legislation to remove themselves from inclusion in the Act.

## **Current Act Yields Both Benefits and Inefficiencies**

One element of the Act's purpose is to "streamline and minimize the total government and business costs of necessary licensing" (§30-16-102(2), MCA). Representatives from trade associations and businesses who receive licenses through the One-Stop program and staff from participating agencies argued the One-Stop program is a good idea and has created efficiencies and reduced licensing costs for businesses. However, four participating agencies indicated that issuing licenses through the One-Stop program has also created inefficiencies and increased costs for government.

## **Current Paper Processing Times**

Businesses benefit from the convenience of a single master application and payment for One-Stop program licenses, licenses that have been synchronized to expire on the same date, and by paying no fees for the One-Stop program service. Currently, it takes multiple steps to process One-Stop program license applications and renewals, including receiving and processing payments at cashiering, entering and processing license information at the One-Stop program, and possibly waiting for action from the licensing agency. When one factors in the two or three days (or longer) for USPS first-class mailing, a business can wait anywhere from six to 18 days to receive their One-Stop program license, from the point of mailing an application until the license

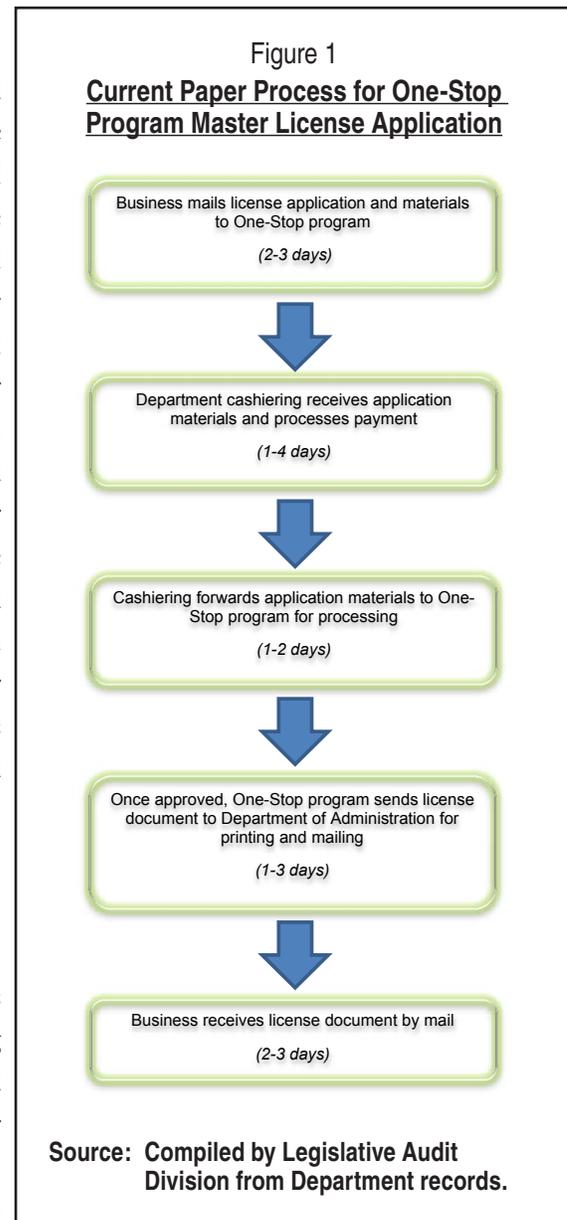
arrives by mail. Figure 1 illustrates how the One-Stop program currently processes license applications and renewals.

During the audit, we examined a random sample of new license applications and renewals from fiscal year 2012 to determine length of time to process. Audit work revealed a total process time range of 2 to 12 calendar days and an average of 6.13 days until the license is printed for mailing. For license renewals, the total process time range is 1 to 9 calendar days and averages 4.53 days. As stated earlier mail delivery adds more time to the process not only when businesses send materials to the One-Stop program but also as materials are prepared for mailing by Print and Mail Services (Department of Administration) and subsequently mailed to businesses.

### Efficiencies and Inefficiencies for Agencies

The One-Stop program benefits participating agencies by processing master license applications and payments and by providing customer service to license applicants. Nonetheless, participating agencies maintain their own separate agency systems and databases that include information for the licenses the agencies administer. Agencies transfer license information from the One-Stop system to their agency systems for licenses issued through the One-Stop program, thereby costing the agency additional resources. The Nursery Program is the exception, as it relies entirely on the One-Stop system to maintain Nursery license information.

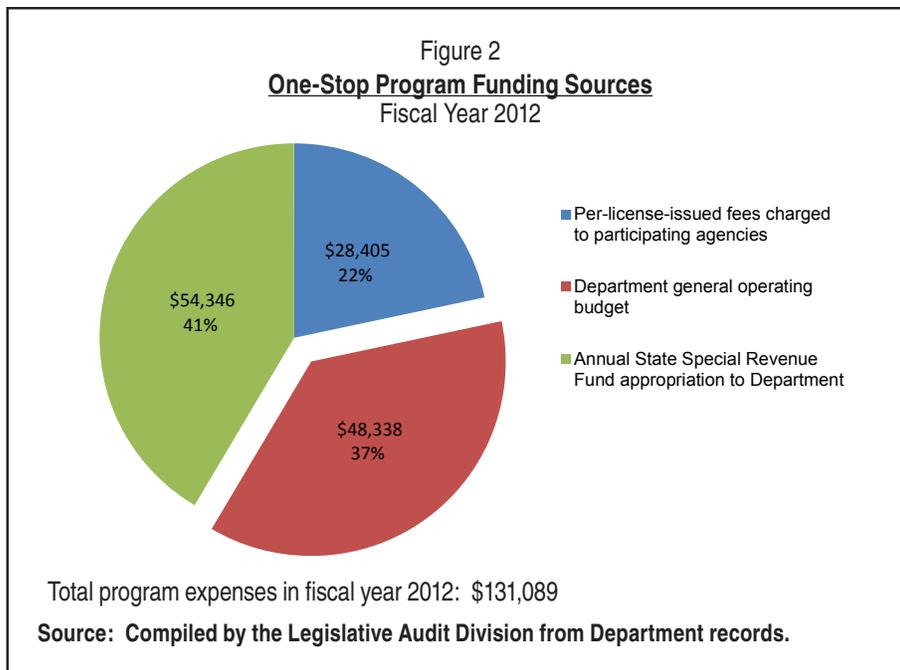
Some agencies reported they must process licenses issued through the One-Stop program differently than the other licenses they issue. For example, two agencies reported recently implementing agency-wide database systems for business and



occupational licensing and related inspections but are unable to incorporate the licenses issued through the One-Stop program into these systems. Also, audit staff observed personnel at one participating agency manually transferring license data from the One-Stop system onto the agency's system in order to maintain agency license records. Additionally, by issuing licenses and permits through the One-Stop program, two agencies argue they have lost contact with the businesses and industries the legislature has directed them to regulate. One Board of Review member put these agency concerns succinctly by stating that agencies do not like other agencies conducting their business.

### **One-Stop Program Costs**

The Act's statutory language regarding program funding has kept licensing costs low for businesses and agencies participating in the One-Stop program. According to estimates from the Department, in fiscal year 2012 it cost \$131,089 to operate the One-Stop program. Currently, the Department charges participating agencies \$4.37 per master license in order to defray part of the Department's costs. These per-license fees totaled an estimated \$28,405 in fiscal year 2012. According to Department management, the program also receives a State Special Revenue Fund appropriation of \$54,346 and the remainder of program expenses (\$48,338) is covered through the Department's general operating budget. The Department charges no fee to applicants for using the One-Stop program service and the Department also pays merchant fees charged to applicants for paying by credit card. Applicants do pay fees to agencies for individual licenses, however. Department staff processes and deposits these fees to the respective licensing agencies as part of the One-Stop program's services to agencies, and these individual license fees do not fund One-Stop program operations. Figure 2 illustrates One-Stop program funding.



Without clear statutory authority, the Department is hesitant to raise fees to cover One-Stop program costs and therefore has decided to fund the remaining One-Stop program licensing costs from the Department's general operating budget. As a result, the Department bears the majority of program expenses. In addition, the current statutory funding language has limited the Department's ability to develop and address One-Stop program operational needs.

### **Similar State Licensing Operations Charge Fees to Applicants to Cover Costs**

Many agencies with similar licensing programs – here and in other states – charge fees to applicants in order to defray agency costs of administering and processing licenses. For example, the Department of Fish, Wildlife, and Parks administers the Automated Licensing System and the Department of Justice operates the Vehicle Registration Renewal Service. Both agencies charge a convenience fee to applicants to help cover the costs of these online systems. Applicants using these systems also pay any merchant credit card fees. The State of Washington funds its Business Licensing Service entirely from administrative fees charged to applicants, which are in addition to any individual license fees. Washington charges applicants \$15 for each initial application and \$9 for each renewal.

### **Incorporating E-Government Services for License Applications and Renewals**

The Department established a website for license-seeking businesses to access the master application and information necessary to apply for any of the seven licenses the One-Stop program currently issues. However, applicants must print and mail or fax the completed application along with payment and any required supplementary materials to the One-Stop program office in Helena. The One-Stop program does not offer online submission or approval of application materials or distribution of requested licenses. The process is the same for license renewals: licensees must submit payment and hard copies of any required documentation and wait for their renewed license to arrive by mail.

### **Online Licensing Portals Offer Convenience, Improve Efficiency, and May Lower Costs**

The State of Montana has made it a priority for agencies to offer electronic government (e-government) services. Many agencies have developed online portals where the public and businesses can obtain and renew licenses. The Department of Fish, Wildlife and Parks' Automated Licensing System is an online portal for obtaining conservation, fishing, and hunting licenses, and the Department of Justice issues vehicle registration

renewal and temporary registration permits through its online portal. The Department of Labor and Industry offers online licensing for professional and occupational licenses, and online registration for construction permits. These online portals offer convenience for licensees while improving efficiency and potentially lowering costs for state government. Administered through a contracted vendor, online portals often have limited costs to agencies since the contracted vendor receives revenue through fees charged to licensees.

The Department's recent survey of businesses that have multiple licenses issued through the One-Stop program showed 53 percent of respondents would use an online system to acquire One-Stop program licenses if it were available. Department management reports they are seeking funding for an online component to the One-Stop system. According to Department preliminary estimates, an online system would cost \$32,930 to develop and \$11,510 in on-going annual operating costs.

### **Act Needs Reevaluated**

Two important elements of the Act's purpose are to:

- ◆ Streamline and minimize the total government and business costs of necessary licensing and inspection procedures (§30-16-102(2), MCA).
- ◆ Provide a convenient, accessible, and timely system for the business community to acquire and maintain the necessary state registrations and licenses to conduct business (§30-16-102(4), MCA).

The legislature has revised the Act many times since the Act's 1981 inception in order to better align the Act with the evolving needs of business licensing. Current statute streamlines the licensing process for many businesses by offering the convenience of a single license application and payment, but it is still administered through a non-online, paper-driven process. The legislature hence should reevaluate whether the Act meets the needs of contemporary business licensing.

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#### ***RECOMMENDATION #3***

*We recommend the legislature reevaluate whether the Small Business Licensing Coordination Act meets current business licensing needs.*

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DEPARTMENT OF REVENUE

DEPARTMENT RESPONSE





Dan Bucks  
Director

# Montana Department of Revenue



A-1

Brian Schweitzer  
Governor

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OCT 12 2012

LEGISLATIVE AUDIT DIV.

October 12, 2012

Tori Hunthausen, Legislative Auditor  
Legislative Audit Division  
Room 160, State Capitol  
P.O. Box 201705  
Helena, MT 59620-1705

Dear Ms. Hunthausen:

Thank you for the opportunity to respond to the Performance Audit of the One-Stop Business Licensing Program administered by the department with policy direction provided by the Board of Review. This audit report includes two recommendations with which the department concurs and one recommendation to the legislature. Our response to the recommendations is as follows:

## **Recommendation # 1**

*We recommend the Department of Revenue further develop formal operating processes for the One-Stop Business Licensing Program.*

**Concur.** The department has in place desktop processes for administering the One-Stop Licensing Program. These are operating instructions to provide staff with steps on conducting the day-to-day activities. The department has taken some steps recently to create efficiencies in these processes, but have not updated all of the procedures to reflect these changes. The department agrees these operating processes should be updated, as well as recognizes the need to develop a more comprehensive guide to ensure consistency among staff upon transition. The department will work to strengthen the written operating processes for administering the program.

## **Recommendation #2**

*We recommend the Department of Revenue, working through the Board of Review, define the delinquent notice process for the One-Stop Business Licensing Program and eliminate duplication.*

**Concur.** As the audit indicates, the department does issue delinquent notices to businesses participating in the One-Stop program. The department reports on this activity to the specific agencies engaged in the program on a quarterly basis at the

Board of Review meetings. The department has continued to issue delinquent notices to businesses for a period of years, and specifically for the time periods mentioned in the audit report, for the underground storage tank licenses administered by the Department of Environmental Quality (DEQ). The department and DEQ have entered into a formal Memorandum of Understanding that outlines when delinquent notices shall be issued. Owners of the underground storage tanks are liable to pay the license fee as long as the tank remains in the ground, even if the business entity no longer is operating.

The audit report indicates there a number of businesses that have repeatedly received delinquent notices over a period of years. Although the department agrees that inefficiencies are created if other agencies are duplicating the efforts separately from the One-Stop program, the estimated annual cost for sending the notices to the 46 businesses cited in the report by the One-Stop program is \$150 and \$28 for the three businesses sent notices since 2009.

The department believes the One-Stop Business Licensing Program creates efficiencies and reduced costs for businesses and the participating agencies, but also recognizes the need to ensure the program operates as efficiently as possible. The department will explore to what extent the duplication of notices is occurring and will work with the participating agencies through the Board of Review to define the delinquent notice process and streamline how it is administered.

### **Recommendation # 3**

*We recommend the legislature re-evaluate whether the Small Business Licensing Coordination Act meets current business licensing needs.*

Although some of the agencies originally designated in statute to participate in the Montana Small Business Licensing Coordination Act may no longer deem the licenses they administer to be a fit for the One-Stop Licensing program, the program certainly provides efficiencies and reduced costs to businesses and agencies with licenses issued through One-Stop. As the audit indicates, the department on average processed paper license applications in six days in fiscal year 2012. If one adds two days for mail processing on the front end and back end of the application process, businesses received their licenses in only 10 days. This could include up to seven different licenses from five different state agencies. Not only does this program streamline the licensing process for businesses, state government costs at a minimum would be up to five times greater if each of the participating agencies managed the licensing processing individually. The Act as it was intended by the legislature certainly meets the objective of making it easier for businesses to comply with their licensing requirements, along with minimizing their costs to do so.

The department recognizes that technology since the Act's inception some 30 plus years ago has made it easier to conduct business and in many cases the manual

processing of paper is being replaced by online applications. Although steps have been taken over the years to provide electronic services to businesses and agencies participating in the program, agencies and businesses alike seek the benefits available with an online application process. One of the benefits most likely could be the transfer of data between the One-Stop system and participating agency systems. With the current paper application process, not all data is captured and entered into the One-Stop system by department personnel. For example, Liquor Licensing requires business ownership data on the license application that is used to administer off-premise beer and wine licenses. The department, along with the Board of Review, has discussed the need for an online application system and the department is seeking funding of this component in the current budget process.

The department recommends that, in the course of evaluating the Small Business Licensing Coordination Act, the legislature review and reconsider 30-16-201(3), MCA. That provision places the Department of Revenue in the position of evaluating whether or not licensing requirements, procedures or forms serve the public interest. This responsibility would appear to more appropriately belong to the governor and legislature in the normal course of their duties instead of one state department judging the practices assigned to other agencies.

Thank you for allowing us to respond to the performance audit report and the opportunity to discuss the issues with you and your staff during the exit conference. I would also like to thank your staff who conducted the audit for their professionalism and their fairness in working through the issues that were raised.

Sincerely,

A handwritten signature in black ink, appearing to read "Dan Bucks", written in a cursive style.

Dan Bucks, Director



Dan Bucks  
Director

# Montana Department of Revenue



Brian Schweitzer  
Governor

October 25, 2012

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OCT 25 2012

LEGISLATIVE AUDIT DIV.

Tori Hunthausen, Legislative Auditor  
Legislative Audit Division  
Room 160, State Capitol  
P.O. Box 201705  
Helena, MT 59620-1705

Dear Ms. Hunthausen:

Since receipt of the final version of the Performance Audit of the One-Stop Business Licensing Program received in our offices on Wednesday, October 24, 2012, I would like to amend my response to Recommendation # 2. I had initially responded to this recommendation in a letter to you dated October 12, 2012. On the very day we received the report we conducted the regularly scheduled One-Stop Board of Review quarterly meeting. The audit was one of the items discussed, as I believed it was imperative to give the board an opportunity to review the audit and provide feedback. In light of that discussion my amended response to Recommendation #2 is as follows:

### **Recommendation #2**

*We recommend the Department of Revenue, working through the Board of Review, define the delinquent notice process for the One-Stop Business Licensing Program and eliminate duplication.*

**Partially Concur.** The audit indicates there is a duplication of sending delinquent notices between the One-Stop Program and participating agencies, in particular the Department of Environmental Quality and the Department of Labor and Industry. Based upon the input the department has received we have concluded that there is no significant duplication of this effort between the program and the agencies involved. The department issues regular delinquent notices to businesses participating in the One-Stop Program. Selected communications sent later by individual agencies after an account has been delinquent for a period of time are advanced collection efforts to secure payments from seriously delinquent licensees. Fundamentally, these are two different processes and should not be viewed as a duplication of delinquent notices.

While the department does believe the One-Stop Business Licensing Program creates efficiencies and reduced costs for businesses and the participating agencies, we also recognize the need to ensure the program operates as efficiently as possible. To this

Tori Hunthausen  
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end we believe our efforts should be to work on defining the delinquent notice process with the participating agencies through the Board of Review and distinguish this from collection activities agencies engage in individually.

Please include this letter with the department's initial response to the audit report as part of the official public record of this Performance Audit of the One-Stop Business Licensing Program.

Sincerely,



Dan Bucks, Director