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A Performance Audit of the Governor's Office of Economic Development

It appears that GOED is headed in the right direction to effectively promote Utah's economic development, but improvements can be made in important areas such as finalizing performance measures.

The Governor's Office of Economic Development (GOED) has made significant progress since December 2005 when our first report was issued, even while undergoing additional organizational changes. For several reasons, we believe that GOED is heading in the right direction as the state's economic development agency and has become stabilized organizationally. In addition, GOED has been working on strategic planning and has developed high-level performance measures as part of the Governor's Balanced Scorecard (BSC) initiative. However, as we will discuss, improvements are needed in some areas of GOED's strategic planning and program performance measurement.

Overview of Legislative Auditor General's First Review of GOED

To recap GOED's recent history, in the 2005 General Session the Legislature approved moving the state's economic development function into the Governor's Office. With the relocation came a significant reorganization and near total change in staffing. The same bill that created GOED and authorized its transfer into the Governor's Office directed the Legislative Auditor General to conduct a preliminary review of the office's management controls and another broader review the following year. Our initial review in 2005 identified and made

The new executive director took quick action to address concerns from our preliminary report.

recommendations on areas for improvement. The majority of these concerns have been addressed since our report was issued and include the following:

- A lack of adequate administrative support positions
- Use of onetime funds for ongoing salary expenses
- Need for formal administrative policies and procedures
- Question of how GOED would sustain initiatives when directors returned to private sector jobs
- Question of adequate oversight of corporate recruitment and tourism promotion contracts

Further information on these improvements is provided later in this report. Previously identified concerns still needing attention include the following:

- Completion of strategic planning, including performance metrics
- Justification and documentation of large staff performance awards

These concerns will also be discussed later in the report.

We sampled some GOED programs, including Centers of Excellence, Incentives, Procurement Technical Assistance Centers, and Tourism.

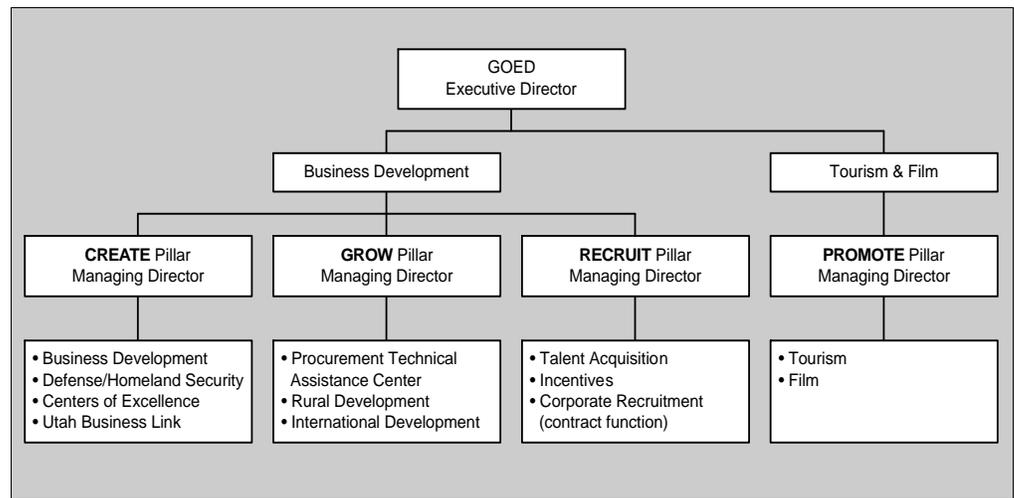
At the time of the first review in December 2005, it proved impractical for us to evaluate GOED's performance in the absence of adequate performance data. Therefore, we indicated the follow-up audit would review performance data as well as assess whether the concerns identified in the first report had been resolved. This report presents the results of the follow-up audit which began in September 2006. With a limited time in which to conduct the follow-up, we chose a sample of GOED's economic development programs and focused mainly on these programs: Centers of Excellence, Procurement Technical Assistance Center, and Incentives. In addition, we conducted audit work at the Office of Tourism and a limited review of the Film Commission's strategic plan and policies. Further, we assessed oversight activity of two contracts, one for corporate recruitment and the other for tourism promotion.

Finally, we note that in March 2006, another period of organizational change began as a new executive director was appointed to GOED and the managing director of the Economic Development (ED) area resigned to return to the private sector. Following these changes, ED was restructured by aligning economic development programs into three

The Business Development side of GOED is organized into “pillars” which are similar to divisions; see Figure 1 on page 3.

groups (referred to as “pillars”): Business Creation, Business Growth, and Business Recruitment. The Tourism and Film Division forms a fourth pillar focused on promotion of the state. Figure 1 below gives a simplified organization chart for GOED so the reader can see that pillars and divisions are essentially the same concept.

Figure 1. The GOED Organization Chart Shows That the Office Has Four “Pillars,” Each with a Particular Focus. This chart is simplified to focus on the pillars; there is also a group of administrative positions reporting directly to the executive director.



Within this somewhat unsettled environment, an initial responsibility of the new executive director was to address the concerns raised in our preliminary report. The resolution of these issues is addressed in the following discussion of GOED’s overall direction.

Indicators Show That GOED Is Headed in the Right Direction

We believe that GOED is headed in a positive direction and has made significant progress in several areas since our preliminary report in December 2005. This section of the report will discuss the following indicators of positive progress:

- GOED’s executive director addressed most of the administrative and program concerns raised in our preliminary report.

The bulleted points, which are discussed below, are indicators that show GOED is headed in the right direction.

- GOED appears to be focused on appropriate economic development areas when compared to other states' programs.
- Qualitative feedback from businesses indicates that GOED programs are providing valuable services.

Though these indicators provide a comfort level about GOED's direction, they fall short of the quantitative evidence we normally review. However, we note that quantitative economic development outcome indicators may take longer than a year to become evident. Examples include the following:

- The Centers of Excellence program funds up to four years of university research that has commercialization and job creation potential; as an illustration of a short time to commercialization, the program director cited a center that "spun out" or created a company after two years' funding.
- Positive changes in tourism-related tax revenue may take 18 months or more to appear after the advertising and promotion efforts occur.

In lieu of actual outcomes, therefore, the following information presents several positive indications of GOED's direction.

Most Concerns Identified in 2005 Report Have Been Addressed

As indicated, we revisited the concerns identified in the preliminary report (December 2005) and found that most of those issues have been addressed by GOED's second executive director and his staff. Figure 2 summarizes the concerns that have been resolved; the material following the figure indicates how those concerns were addressed. Remaining concerns about planning and performance data will be discussed in the next two sections of the report.

GOED has addressed most of the concerns raised in our December 2005 preliminary review.

Figure 2. GOED Has Demonstrated Progress by Addressing Concerns Identified in Our 2005 Limited Management Review.

Concerns Addressed in GOED Administration:

- Addressed the lack of adequate administrative support
- Restored administrative funding as a separate line item
- Formalized administrative policies and procedures; revised staff performance award policy
- Discontinued the use of onetime funds for some salaries

Concerns Addressed in Tourism:

- Realigned management oversight, programs, and staffing to support new advertising campaign
- Revised tourism strategic marketing plan
- Developed some operational policies and procedures
- Improved contract oversight and performance monitoring

Concerns Addressed in Business Development:

- Addressed sustainability by improving reporting relationships, adding support staff, and formalizing operational processes
- Made significant progress in developing performance measures as part of the Governor’s “Balanced Scorecard” initiative
- Implemented recruitment contract oversight

Concerns in GOED’s Administrative Area Have Been Addressed.

First, the lack of administrative support staff in human resources (HR), information technology (IT), legal services, and economic analysis has been addressed by hiring staff for HR and IT, as well as using the services of an attorney in the Attorney General’s Office and occasional use of an economist in the Governor’s Office of Planning and Budget (GOPB). Second, the administrative budget, which was completely allocated to ED during the initial reorganization, has been restored as a separate line item in the overall GOED budget.

Third, the initial report identified a need for office-wide administrative policies and procedures. Policies have been formalized, including one for staff performance awards that follows state policy, thus addressing another concern from the first report.

We reviewed a sample of five staff awards paid during fiscal year 2006 and found that all were less than or equal to the \$4,000 maximum per

The amounts of staff performance awards now meet state policy, but a sample of awards found that some still lack complete documentation.

occurrence stipulated in state policy. However, compliance with the policy's documentation requirements needs to improve. Some files lacked signed nomination forms, evidence of management review and approval, and/or justification of "superlative performance" as required by the policy. The executive director indicated that the policy change was implemented at fiscal year end, the same time that awards were being given. He acknowledged that documentation could have been better, and said he has already discussed the issue with the managing directors with directions to provide better documentation in the next round of incentive awards.

The use of one-time, carry-forward funds for salaries has been discontinued.

Fourth, in the first report we had concerns about budgetary controls, noting that some program directors' salaries were being paid with one-time, carry-forward funds. According to the executive director and finance director, all staff are now funded with ongoing monies. For corroboration, we reviewed GOED budget documents which showed that sufficient ongoing General Funds are now being budgeted to cover all salaries.

Prior Recommendations to the Office of Tourism Have Been Addressed. The most significant change at Tourism was a large infusion of funding in 2005 for tourism promotion, resulting in a contract with a marketing firm. The contract with Struck Creative (formerly "W" Communications) had just been signed during our initial review, so an evaluation of oversight was not possible at that point. On our return, we found that a staffing change had been made to address the oversight issue: a deputy director position had been created and assigned primary oversight responsibility for the promotion contract with Struck Creative. This deputy and another deputy director also divide responsibility for other in- and out-of-state travel promotion activities.

Contract Oversight Includes Frequent Involvement in the Promotion Process and Review of Billings. The responsible deputy director of Tourism stated he works with the marketing firm almost daily, is often a participant in creative sessions and other meetings, and was involved in the development of a new "brand" or slogan to promote travel to Utah. In addition, he reviews Struck's invoices before approving them for payment. Our review of a sample of invoices showed that management review and approval of billings was occurring; we also found policies in place to guide the invoice payment process. Finally, the deputy stated that the managing director as well as members of the tourism board also provide oversight.

Our sampling shows a deputy director reviews and approves contractor invoices, which also undergo financial review prior to payment.

Tourism's decision to obtain evaluative data on the travel promotion campaign is commendable.

Tourism Plans to Assess the Effectiveness of the Advertising Agency's Work. To evaluate the newly developed advertising, Tourism contracted with an independent firm for a qualitative study in several markets (Los Angeles, Denver, and Las Vegas for the summer ad campaign and Los Angeles and New York City for the winter campaign) to assess the effect of the TV and print ads on viewers' or readers' perception of Utah. The report on the first phase of this two-part study states that while awareness of Utah as a travel destination increased somewhat in the markets, the ads did not strongly motivate people to take action (regarding a visit to Utah) nor did the ads have a strong positive impact on consumers' perceptions of Utah. Even though the initial results of this study are somewhat concerning, Tourism's proactive approach to obtaining evaluative data is to be commended.

The second phase of the study will seek to determine the conversion rate of both summer and winter ads; conversion rate is a measurement of whether the change in viewer perception was sufficient to result in an actual visit to Utah. The conversion rate study is currently underway; we were told that the draft report dealing with the summer ad campaign should be available in February 2007.

As recommended, Tourism's and Film's strategic plans have been rewritten or updated; policies and procedures are being formalized.

Finally, both the Office of Tourism and the Film Commission have revised their strategic plans, with Tourism's in particular changing to incorporate the increased marketing activity. In addition, some operational policies and procedures for Tourism have been drafted, with further additions to the manual planned or in process. These changes also addressed concerns from the initial report.

Progress Has Also Been Made in the ED Programs, But Some Concerns Remain. Our preliminary report expressed concern about reporting relationships in the revised organizational structure of ED and the lack of line and support staff. In addition, our understanding was that new program directors had been hired with the understanding that they would provide their expertise for a limited time. Thus, we were also concerned about GOED's ability to sustain its new initiatives when ED program directors returned to private sector jobs. Further, a major function, corporate recruitment, had recently been contracted out, and we had some concerns about contract performance and reporting requirements. Finally, the report indicated that while strategic planning had begun at a high level (mission and values), details of goals and objectives had not been developed.

Progress includes:
- reporting structure in place with new organization chart
- support staff hired
- sustainability addressed in written policies

Progress includes formalization of the division’s aforementioned Creation, Growth, and Recruitment Pillars and an accompanying reporting structure. (Please refer to the organization chart in Figure 1, page 3 of this report.) Program directors in ED report to one of the three pillar managing directors, who report to GOED’s executive director. In addition, each pillar now has some administrative support staff in place. Program operational processes have been formalized in writing (partly in response to our concerns about sustainability), providing some direction to help ensure that new initiatives would continue if a director left suddenly.

Recruitment Contract Oversight Is a Regular Activity. Because a contract with the Economic Development Corporation of Utah (EDCUtah) had just been signed during our first review, an evaluation of contract oversight was reserved for this audit. Contract oversight now appears to be a major responsibility of the managing director of Business Recruitment. EDCUtah is responsible for the initial research and recruitment of companies that have indicated an interest in relocating to Utah; GOED becomes more involved at the point that a relocating company decides to apply for incentive awards.

One of ED’s managing directors is responsible for oversight of and coordination with EDCUtah, including regular reporting.

The managing director has regular contact with the contractor, estimating that about a third of his time is spent involved in recruitment activities and informal meetings with EDCUtah. Weekly meetings are held to work on developing and implementing a Headquarters Strategy (to focus on recruiting company headquarters to Utah). In addition, monthly progress reports on recruitment activity occur, with EDCUtah reporting on the status of each company being recruited. An annual summary report is also submitted to GOED. Finally, the director sits on EDCUtah’s executive board and is actively involved in setting policy for the contractor.

Beyond the resolution of most concerns included in our preliminary report, GOED’s restructuring included the kind of economic development programs that seem to be of value in other states, another positive indicator of GOED’s direction, as discussed in the next section.

GOED's Programs Similar to Other States' Economic Development Programs

We reviewed website and other information from several nearby states to determine if GOED covers areas deemed important by other western economic development agencies. This high-level comparison shows that other western states have programs in similar economic development areas as Utah. Of course, simply providing programs in similar areas is not a guarantee of quality program performance, but it is an indication that GOED recognizes the value of promoting economic development via these program areas. Figure 3 shows major GOED programs and whether four nearby states offer similar programs.

Figure 3. Utah Offers Similar Economic Development Programs as Other Western States. This comparison was made at a high level and does not compare specific content.

Program	UT	AZ	CO	ID	OR
Clusters/Targeted Industries <i>-focus on areas of economic promise</i>	X			X	X
Centers of Excellence <i>-helps bring univ. research to the market</i>	X		X		
Procurement Technical Assistance Ctr <i>-help businesses access govt. contracts</i>	X	X	X	X	X
International Development <i>-assist connections with foreign business</i>	X	X	X	X	X
Rural Development <i>-help rural economic development</i>	X	X	X	X	
Talent Access/Training <i>-train/recruit workforce in targeted areas</i>	X	X	X	X	X
Corporate Recruitment <i>-recruit business to move to the state</i>	X	X	X	X	X
Financial Incentives <i>-tax relief to relocating businesses</i>	X	X	X	X	X
Small Business Development <i>-resources for small business</i>	X	X	X	X	X
Tourism Promotion <i>-increase leisure travel to the state</i>	X	X	X	X	X
Film Development <i>-promote & assist filming in the state</i>	X	X	X	X	

Note: Descriptions give general idea of program purpose and are not intended to be comprehensive.

Maintaining and/or initiating the programs in Figure 3 shows that GOED recognizes they are important factors in promoting Utah’s economic development. As mentioned, similar programming by itself does not ensure good service. But, we also found that GOED received positive reviews from business clients.

GOED Programs Get Positive Feedback from Companies

According to feedback from companies assisted by GOED and EDCUtah, Utah has an effective Corporate Recruitment Program. We talked to a sample of five companies that were recruited and offered incentives to relocate in Utah, four of which chose to locate in Utah. In addition, comments from companies that participated in a foreign trade mission provide some indication that GOED's International Trade Development Program provides valuable assistance to Utah companies interested in international business.

The five recruited companies represented almost one third of all companies approved in fiscal year 2006 for incentives awards. The four companies that decided to locate in Utah accepted financial incentives in return for adding a projected 1,725 new jobs, \$34.6 million in projected new state revenue, and \$129 million in projected capital investment in their Utah facilities over the 10 years of the incentive agreements. Company representatives spoke positively about their experiences; even an executive of the company that decided to locate elsewhere spoke positively about his contacts with GOED and EDCUtah. Some of the companies' remarks follow:

- **Utah Is Seen as Having Good Quality of Life, Strong Workforce, and a Business-Friendly Environment.** Several company representatives indicated that a number of important factors, including quality of life, a high quality workforce, and a pro-business environment, were major considerations in their decisions. One representative of a company seeking to expand its operations stated that the state-level incentive and help given by the city involved were important; he went on to say that Utah's quality of life, quality workforce and business-friendly environment were also important deciding factors.
- **Incentives Are Important Recruitment Tools.** One individual said that without incentives, his company would not have considered Utah, while another stated that GOED's incentives offer was the tie-breaker for his company's decision to locate in Utah instead of a competing state.

Representatives for companies having contact with the Recruitment and Incentives programs gave positive feedback on their experiences.

Participants' comments reflected favorably on a trade mission arranged by GOED International Development staff.

Objectives in strategic plans need to be quantified and time-limited, then plans should be put in writing and submitted for GOED management review.

- **Utah Showed Interest in “Partnering” with the Firms.** An executive commented that the help he received from the various interested parties in Utah (state/county/local) and the incentives showed him that Utah “wanted to partner with him.” But to this individual, the willingness to partner seemed even more important than the incentives. Similarly, another executive said that GOED (and staff of the city where he planned to locate) were very responsive, helpful, and anxious to work with his company. He was also impressed that the Governor and Senator Hatch paid a visit to their already existing Utah location.

These independently obtained comments and others indicate that GOED has a competitive incentives program. Also, the recruitment efforts made by GOED, EDCUtah, and local governments seem to have made positive impressions on these companies.

Positive Feedback Was Also Received about a Recent GOED Trade Mission. We obtained some qualitative feedback in the form of comments from five companies that participated in a 2006 trade mission to Mexico. The e-mails from company representatives contained positive comments on the logistics of the trip and the meetings with Mexican businesses arranged by GOED staff. In our follow-up phone conversation, one participant rated the trip highly, reiterating his previous (e-mail) assessment.

Although we were not able to review such client feedback for all GOED programs, the comments above are an indication that GOED appears to be on the right track in these programs. Even so, while qualitative measures are of value, in the last section of the report, we present our assessment that GOED should focus on developing more quantitative performance measures. However, first we turn to a discussion of work still to do in strategic planning.

Strategic Planning Needs to Be Finalized

In part because of multiple changes in leadership and organizational structure, strategic plans at GOED have not yet been finalized. We believe that GOED has been strategizing as it has reorganized and started program operations. However, in some plans, objectives are overly general or not goal-directed. All plans should also be put in written form

and submitted to the executive director for review and approval. In the process of completing these tasks, GOED can also turn to resources such as the strategic plans of its own Office of Tourism and some nearby states.

In 2005, we reported that GOED had established a vision and parameters for new and existing programs—important starting points in strategic planning. That report also stated that operationalized objectives and formally written plans were still needed. Tourism and Film have complete, written strategic plans in place, but, as we discuss in this section, some Economic Development (ED) strategic plans have not been finalized.

Some ED Strategic Plans Lack Quantified, Time-Limited Objectives

GOED has been developing strategic plans for individual programs as well as a coordinating recruitment strategy discussed below. However, several programs in Business and Economic Development still need to quantify some objectives and set time frames for accomplishing them. Without the detailed direction provided by a complete strategic plan, programs run the risk of not attaining goals because of lack of focus, overlooked important work, resources wasted on unimportant activities, and so on. The examples below show that the higher level concepts are in place but the details of plans still need to be clarified.

Plans for GOED’s Headquarters (HQ) Strategy Are Evolving But Are Not Yet Complete. According to the executive director, a new HQ strategy is being developed to provide a coordinating focus for a number of ED’s programs. The director felt that they had put together a solid plan for the coming year, particularly for recruitment in a specific industry. Although the director provided us with the overall framework for the HQ strategy as well as information on some initial strategizing sessions, we found that targets, objectives, and action steps had not yet been detailed. It seems to us that GOED has put significant effort into the initial development of this strategic plan. The plan should now be finalized by moving past broad goals to more specific objectives that outline action and quantified performance measures or metrics that enable the agency to assess both progress and success.

As noted, the HQ strategy description given to us includes the overall frame: GOED plans to recruit key headquarter companies in a targeted

By the end of our work, a recently conceptualized Headquarters Strategy had not been finalized.

GOED has taken initial steps to refine the HQ strategy, involving industry executives in an advisory capacity.

The Business Creation Pillar staff were still developing program objectives and quantified metrics for the draft strategic plan.

industry by consulting with that specific business community to identify how to help the industry grow. GOED will focus on specific industries with a current presence in Utah (initially, outdoor recreation and advanced composites); the intent is that successfully recruited companies would improve Utah's competitive position in these industries. (The advanced composites industry uses carbon and Kevlar fibers and composite materials in airplane and space shuttle parts, sports equipment, and other products.)

To illustrate one of these first steps, a recent strategizing meeting was held involving GOED, EDCUtah, and CEOs and customers of advanced composites companies. Meeting notes show that the group discussed industry challenges (including a shortage of engineers), brainstormed solutions, and developed a list of possible companies for recruitment. The meeting resulted in plans for the companies' continued consultation and involvement with ED's recruitment program and a refocusing GOED's Talent Acquisition Program on engineer recruitment. This type of meeting has also been held with the outdoor recreation industry to develop ideas for building that industry in Utah.

Strategic Plans for the Business Creation Pillar Programs Also Need to Be Finalized. We obtained a draft strategic document from the managing director of the Business Creation Pillar. The document included a pillar mission statement and purpose (mission) statements for three of four programs plus the State Science Advisor's Office. In addition, each program listed one or two strategic goals for fiscal year 2007. However, in this draft version of the plan, objectives, action steps, and performance metrics were still under development.

For example, a listed goal of the Centers of Excellence Program (COEP) was to "extend the programmatic reach" of the program. Though the goal was set, the document did not indicate how extending the program's reach would be accomplished. A hypothetical quantified objective for this COEP goal could be "to schedule and conduct meetings with (X number of) department chairs at (X number of) research institutions in Utah during fiscal year 20XX."

In addition, main and supporting performance measures for COEP were listed, showing what would be measured, such as "jobs created in Utah." But the metric did not specify how much or what level of performance was needed for success ("X jobs" or "Y percent job increase

over the prior year”). The job creation measure (a fundamental economic development program success indicator) could be made more operational by providing other details as well. For example:

- What kind of jobs?
- At what pay level?
- How many jobs of this type currently exist (baseline data)?
- How much of an increase in jobs is desired? Over what time frame?

We had similar concerns about the lack of quantified objectives and specifically defined metrics for other programs in the Business Creation Pillar.

Thus, both documents illustrate not only planning that has been accomplished, but also steps still to be completed at the time we ended our fieldwork at GOED. Once these refinements are finalized, the next step is putting the fully developed plans in writing for administrative review and approval.

Plans Should Be Written and Submitted For Management Review and Approval

We believe GOED should formalize the completed strategic plans by committing them to writing and getting management’s approval. These are essential steps in the finalization of an agency’s planning effort. One advantage of the writing process is to enable identification of areas needing clarification. Another is that the resulting formal plan not only clearly states goals to aim for and lays out a plan of action, but also increases the likelihood that staff and other interested parties have a common understanding of program purpose and direction. Finally, central review and approval ensures that all programs are aligned in order to support and contribute to the overall mission’s accomplishment.

In the case of the Business Creation pillar’s strategic document, the draft had not been written when we first requested strategic plans. Acknowledging the importance of formalizing the already ongoing processes, the managing director developed the draft document in response to our request. The director also acknowledged that he still needed to incorporate specific strategies or action steps into the plan.

Written plans help to ensure a common understanding of program purpose and direction; review and approval ensure alignment across the agency.

Our discussions with staff throughout the audit reflected that they were thinking strategically, essentially doing *de facto* planning; a good example of this is the Headquarters Strategy that has been initiated as it evolves. However, all plans should now be finalized, coordinated with other GOED programs, committed to writing, and approved.

Below we give a few illustrations from detailed strategic plans in GOED's own Office of Tourism and in nearby states' economic development agencies.

Others' Plans Show How Details Define a Plan of Action

As it refines program plans, ED has a resource in the Office of Tourism's strategic plan. The Office of Tourism had the advantage of fewer changes in programming and personnel, and an existing strategic plan. However, even though Tourism's plan was rewritten to reflect changes made as a result of increased funds for tourism promotion, this plan can serve as an example of a detailed, quantified plan.

We reviewed the 33-page executive summary of the revised plan which laid out the following elements (among others):

- Mission statement
- Six high-level objectives accompanied by performance measures
- Quantified targets for performance (for example, "4% increase in national park attendance" or "8.25% increase in international visitors from 648,000 to 701,460")
- Program-level objectives (e.g., for Public Relations or Marketing)
- Marketing and Advertising objectives and marketing approaches by medium (TV, print, etc.)
- Statistics from industry research on traveler profiles and spending levels, Utah's travel market share, historical trends, competitor states, and other data
- Budget and expenditure data

Even in summary form, Tourism's strategic plan is detailed, specific, and quantified, providing a directed guide for program activity along with a way to assess progress toward and accomplishment of goals.

Strategic plans vary in organization and content, but these organizations' plans provide examples of the detail needed to finalize ED's plans.

Some states' economic development agencies have strategic plans that illustrate desirable content.

Nearby States' Plans Also Include Quantified Goals and Objectives. We contacted some nearby states to determine how they plan and measure economic development activities. We reviewed website information and documents from four nearby states and spoke with several economic development staff as well. Strategic plans for economic development in these states identify specific goals, usually quantify objectives, and frequently list action steps designed to accomplish the goals and objectives within a set time frame. Figure 4 below illustrates ways that strategic plans move from general goals to more specific objectives and then to action steps (or strategies) and shows that measures are included.

Figure 4. Arizona’s and Idaho’s Economic Development Plans Show Progression from General to Specific. Note that Arizona quantifies the objective while Idaho steps down to component objectives to specify the numeric information; both allow comparison of current performance with the goal in a specified time frame.

Planning Element	Description of Element
<u>Arizona</u>	
Goal*	Strengthen business attraction and development efforts that create jobs exceeding the county average wage in all regions of the state.
Objective*	Increase by 5% over 3 fiscal years the median number of jobs created by companies that located or expanded to AZ as a result of strengthening business development efforts.
Strategy*	Proactively identify and meet with companies (small- and medium-size in targeted industries) considering expanding and/or relocating. <i>(Note: this is one of several listed activities)</i>
Performance Measure*	Average hourly wage rate per job created by companies utilizing business development programs. <i>(FY06 est: \$17.00; FY07 est: \$18.50; FY08 est: \$18.50)</i>
<u>Idaho</u>	
Goal*	Create 2,500 jobs in Idaho.
Objective 1.1*	Sustain and expand existing businesses.
1.1.A*	Introduce ID businesses to new markets through government contracting & international trade opportunities.
1.1.A.1*	Assist ID Business Network clients to win \$100 million in contracts and subcontracts in FY05.
Measure*	Target: \$100 million; Actual: \$160 million.

* These are examples of strategy components; the plans include others.

These objectives in Figure 4 are examples that show how baseline data and targets can provide focal points for planning action steps to accomplish the objective (and goal). There is another advantage to GOED of refining its strategic plans beyond the inherent advantage of

providing purpose and direction to program activities. This added advantage is that high-level performance indicators (needed for the Balanced Scorecard performance measurement tool discussed below) would be identified in the process.

New Performance Measurement Tool Can Be Improved

In addition to finalizing strategic plans, GOED should address some issues in the area of performance measurement. Because performance measurement indicates how well the strategic plan is working, the following material has relevance to strategic planning. This section of the report addresses the following concerns identified as we reviewed how GOED programs intend to assess performance:

- GOED's recently developed Balanced Scorecards (BSCs) need to be re-evaluated to ensure that they focus on critical performance indicators.
- More emphasis should be put on quantitative performance measures and verifiable data, particularly with customer/client reporting.

A balanced scorecard approach to performance measurement ties in well with strategic planning in that a good strategic plan would delineate the high-level measures used in the scorecard (as well as the supporting measures). Since both the strategic plans and the BSCs involve performance measurement, GOED can improve both tools by addressing the concerns identified above.

As this review began, the Legislative Fiscal Analyst assigned to GOED reported having trouble obtaining baseline and performance data from GOED. Initially, some of our concerns paralleled the analyst's. For example, although our preliminary report had recommended that GOED should quantify performance measures, set timelines for accomplishment of objectives, and incorporate actual data into metrics, we returned nine months later (September 2006) to find these issues not yet fully resolved. However, progress has been made, as shown by the initial development of BSCs. The following material gives a short description of the BSC tool

Balanced scorecards and strategic plans both emphasize measuring the performance of an organization.

Concerns in our 2005 report about performance measures and data remained unresolved as this audit began.

and an illustration of a metric (performance measure) from one of GOED's BSCs, after which we present our concerns.

Balanced Scorecard's Intent Is to Succinctly Measure a Program's Performance

GOED and other executive branch agencies have been developing high-level Balanced Scorecards (BSC) as part of a performance measurement initiative by the Governor. The purpose of a balanced scorecard can be described as follows:

- To provide a summary of a limited number of high-level measures of past and present performance in major program areas
- To identify main performance targets for those areas
- To track and measure program progress toward the targets over time

Each BSC contains the following eight data categories that are depicted in upcoming Figure 5:

- **Metric:** the performance measure.
- **Status:** progress toward a metric target expressed as a percentage and shown on BSC as a colored block; color depiction on the BSC is: green=90 percent or greater of target, yellow=75-89 percent of target, red=less than 75 percent of target.
- **Trend:** movement based on the "Current" and "Previous" inputs. The trend is depicted on the BSC with upward or downward arrows, or with a symbol depicting unchanged status.
- **Target:** a numeric goal to be achieved during the reporting time period (see frequency). For example: create 18 new jobs in a month.
- **Current:** the metric (increase, decrease or unchanged) at the end of the reporting period (see frequency).

- **Previous:** the metric carried forward from the previous reporting period (see frequency).
- **Frequency:** how often the metric will be reported (monthly, quarterly, annually, etc.).
- **Metric Definition:** expanded explanation of the listed metric.

Figure 5 is an actual example of a metric in one of GOED’s BSCs. The metric is taken from the BSC of a program whose purpose is to help Utah businesses gain access to government contracting opportunities, with the goal of increasing jobs created by contract activity.

Figure 5. Recent Balanced Scorecard Example of a “High-Level Measure” from GOED’s Procurement Technical Assistance Center (PTAC).

Metric*	Status	Trend	Target	Current	Previous	Frequency
Jobs created from gov’t contracts	90% of target (green)	↑ (upward)	18	160	144	monthly
*Metric Definition: Number of jobs created from the award of government contracts to SLC companies (based on customer survey)						

Figure 5 presents just one of several PTAC high-level and supporting measures for purposes of illustration; all GOED programs have similar measures. Specifically, this example shows that PTAC had a target to increase by 18 the number of jobs created from contracts with all levels of government during the month of November 2006. The November BSC report submitted to the GOED executive director shows that PTAC actually increased jobs by 16 (from 144 to 160), meeting approximately 90 percent of the target ($16/18=88.9$ percent). Thus, the BSC shows an upward trend, as depicted by the arrow icon.

BSCs should be reviewed and changes made to ensure that the most important measures are included.

Balanced Scorecards Should Focus On Critical Performance Indicators

GOED should reassess its data for the recently developed BSCs to ensure that the most relevant measures have been included so the

scorecards function as meaningful high-level summaries of program status. BSC performance measures (metrics) should focus on the primary indicators of success (mission accomplishment). But review of the BSCs we received found that some lacked data, listed measures that had little clear relationship to the stated goal, or measured tasks rather than outcomes. Although further work is needed, the initial development of BSCs represents progress made since our preliminary review.

Still, though all ten BSCs we reviewed in early December listed metrics (what will be measured), six lacked past and present performance data as well as targets or goals for those areas. Upon learning that a number of BSCs were incomplete, the executive director issued a staff directive to finish the BSCs immediately. The updated BSC documents contained at least some data, though six (not all the same as the six above) were still lacking targets, current period performance, and/or previous period performance.

The BSCs are subject to further review by the consultants coordinating the BSC initiative, so the documents may undergo change independent of our audit. However, based on our observations, our conclusion is that more work is needed to ensure that the most relevant metrics are included in GOED's BSCs. The following are some examples of our concerns:

- The International Trade program's BSC lacked a mission statement and indicated that there was "no way to set a target" for four of eight metrics or measures.
- The job creation data and some state revenue data on the Incentives program's BSC were projected, not actual, figures and did not clearly specify whether the projections represented one year's or cumulative data over the multi-year incentives; the Fiscal Analyst had concerns about unavailability of actual data in this area as well.
- The Rural Development Program's BSC listed 11 of 21 targets (52.4 percent) for the current year that were lower than the previous year's total performance, which seems counterproductive to the concept of setting goals that aim for improved performance.
- All eight of the Talent Access Program's BSC metrics were irrelevant because of recent program restructuring; listed measures

The bulleted list illustrates some of the concerns with the BSCs that need to be addressed.

Questions like those listed in Figure 6 can help identify where refinements are still needed.

were activity based (number of website “hits,” number of outreach events) rather than outcome based, lacked definitions, and did not clearly relate to mission accomplishment.

For the reasons listed above, improvements should be made so that all the BSCs provide accurate program status via the most outcome-oriented measures, not only for internal management use but also for external review by interested stakeholders such as the Legislature and Governor. Based on our assessment of GOED’s ten current program-level BSCs, review questions such as the ones in Figure 6 could be asked.

Figure 6. Review Questions for GOED’s Balanced Scorecard.

- Are the right measures included?
- Do the BSCs measure results (output and outcomes), not just activity?
- Are targets included to provide clear goals for a specific time frame?
- Have baseline performance data been included to provide the starting point?
- Should all programs use similar time frames (for example, month, quarter, or fiscal year) when showing accomplishment for the previous and current periods?
- Can comparisons be made against both short- and long-term prior performance? (Managers may find it helpful to be able to compare current period performance against the prior period as well as against prior fiscal year performance at the same point in time.)
- Do recorded data reflect actual performance rather than rely on estimates or projections?

Work on BSCs was occurring as we finished on-site work in December 2006, so GOED may already be dealing with the concerns detailed here.

We acknowledge that GOED staff may be addressing these concerns at present or in the near future. Our observations are based on the BSCs provided to us at the end of our on-site audit work in mid-December 2006. We also recognize that performance measurement is an ongoing process (as is strategic planning) and so these documents may well continue to evolve. Our intent has been to point out areas where improvements are possible in the scorecards we reviewed. Lastly, we note that some of GOED’s BSCs already contain most of the recommended components.

Some BSCs list metrics that clearly relate to mission accomplishment.

Some GOED Programs Have Developed Good BSCs. The BSC for the Procurement Technical Assistance Center (PTAC) Program concisely lists outcome measures that are tied to its mission of providing Utah companies assistance in contracting with federal, state, and local governments; job creation is a desired outcome. The Centers of Excellence Program (COEP) BSC also shows measures that are clearly linked to its mission of accelerating the commercialization of promising technological research projects at Utah’s research institutions. COEP’s BSC focuses on jobs created, cost per salary dollar of jobs created, and number of companies created (“spin-outs”).

A review of PTAC’s BSC provides a clear summary of status on important program goals. (Refer to Figure 5 on page 21.) The high-level measures of program outcome are the number of contracts awarded, the dollar amount for those contracts, and the jobs created and retained as a result of those awarded contracts. Supporting measures are output based and also tied to goal achievement: counseling sessions conducted and workshops held throughout Utah for clients and potential clients.

The following information shows that in addition to including good metrics or measures, the value of a BSC is dependent on the quality of data entered into those scorecard metrics.

Programs Should Obtain and Verify Quantified Performance Data

Wherever possible, program directors should research and adopt methods to assess program performance using objective, verifiable data. Three GOED programs we reviewed currently use self-reported survey responses, inflexible formulas, and unverified or aggregated job data to determine the number of jobs created by their efforts. While these less precise methods of assessment have value, a better approach is to identify and obtain quantifiable measures of success and verify their accuracy. The following examples describe the current measures in place and provide possible approaches for obtaining quantitative performance data.

The Centers of Excellence Program (COEP) Has Updated Self-Reported Job Creation Data and Should Now Verify the Data. COEP obtained business contact information from 75 of 111 center directors (68 percent), then surveyed spin-out companies and other benefitting companies to request data on revenue and jobs created. Some

COEP recently conducted extensive surveys with centers and companies to obtain job data and is working on a way to verify those data.

contacted companies declined to cooperate. The information COEP obtained was self-reported, incomplete, and not independently verified. The COEP director stated that even with these shortcomings, the collected information was an improvement over the data available in the past program's records.

We asked the COEP director about independent verification of job creation in spin-out companies. The director indicated that COEP is currently running a pilot program with two spin-out companies that gives COEP authorization to obtain job and revenue data directly from the Utah Tax Commission. Assuming the pilot program is a success, the director said they would like to apply these reporting requirements to all center spin-outs in the future. We believe this is a step in the right direction; we encourage COEP to continue to pursue methods of obtaining valid performance data.

PTAC should seek ways to obtain and verify actual revenue and job creation reports from assisted businesses.

The Procurement Technical Assistance Center Program's Outcome (Jobs Created) Should Reflect Actual Data. PTAC receives about half of its funding from the federal government and is required to follow federal program guidelines. One such federal requirement is to use a standardized, inflexible formula to calculate the jobs created from contracts that result from PTAC's work with client businesses. In our opinion, PTAC should find ways to obtain verifiable data on contracts and job creation resulting from their work of helping Utah businesses gain access to government contracting opportunities.

Rather than being specific to a given state, job creation data is currently derived by dividing total contract value by a national average job wage.

PTAC's director indicated they request information from client businesses on the number and dollar amount of contracts signed each month, then report that information to the federal government. He acknowledged that this reporting is voluntary and not provided by all clients. Federal staff divide the total reported value of contracts by a set value of \$50,000 to calculate the number of jobs created by PTAC. According to the director, federal program staff indicated the \$50,000 is an average dollar amount for a man-year of labor as calculated by the federal Department of Labor Statistics. The formula is the same for all states regardless of the job created by the contract.

Although PTAC is required to use a job creation formula for federal reporting purposes, in our opinion it is reasonable that PTAC should obtain more precise, verifiable data on contracts and jobs. Otherwise, PTAC cannot provide accurate data on program outcome. We

recommend that PTAC staff contact other states' PTAC programs to determine whether actual job data are obtained in addition to the number generated by the standardized formula, and, if so, how they obtain such data. Job creation data could also be verified using an approach similar to that being piloted by COEP.

GOED should begin using verifiable county wage data when determining eligibility for IAF incentives.

The Incentives Program Should Use Verifiable County Wage Data in Its Application Process. GOED's Incentives Program provides significant post-performance incentive payments to companies relocating to or expanding in Utah. GOED board policy on Industrial Assistance Fund (IAF) incentives states that wages for jobs being created by incented companies should be at least 125 percent of county median wages (or at least 100 percent of rural/disadvantaged county medians). We found that the program has been using unverified county wage data when determining eligibility for incentive awards.

Accurate county median wage data are necessary to determine whether the jobs to be created by applicant companies meet these eligibility requirements. It is important that eligibility be accurately determined to make the best use of public funds used in incentive packages that can amount to millions of dollars. Our sampling showed that staff appear to conduct adequate reviews of other data, such as company finances, during the application process, so we believe they should be able to address this issue as well.

Both the legislative fiscal analyst assigned to review GOED's budget and OLAG auditors have discussed this issue with GOED administrators. Early in the 2007 Legislative Session, GOED's executive director testified that the agency agreed with the use of verifiable data. GOED was in the process of submitting proposed legislation to make needed amendments changing from the use of median to average wage data. We understood that the Department of Workforce Services should be able to provide county average wage data to GOED on a regular basis.

GOED Can Clarify Policy and Procedure for Disbursement of Post-Performance Incentive Awards. Specifically, we believe GOED and its board should develop policy language to ensure consistency in the reports being used to verify new job creation and wages.

We reviewed a small sample of IAF incentive award files and were able to duplicate GOED's computation of the number of incented jobs

GOED and its board should develop policy for required documentation to be submitted in verification of new jobs and wages.

In a file sample, we found that GOED staff were accurately identifying IAF disbursement amounts.

qualifying for payments. However, we found different types of documentation of new jobs and wages submitted to complete these computations. In our opinion, detailed company payroll reports form the clearest evidence of jobs meeting the incentive requirements. Optimally, there should also be a source of independent verification, for example, a report from the Department of Workforce Services (DWS).

Additionally, GOED should consider clarifying IAF contract language to set a limit on how long a qualifying position can be vacant between incumbents. We noted that some workers left qualifying jobs and were replaced during the 12-month disbursement period. IAF contract language allows two incumbents in a job to count as one qualifying full-time equivalent (FTE) if the opening is promptly filled. In practice, GOED staff have approved jobs with up to a three-month gap between incumbents. GOED and its board should consider clarifying IAF contract language to set a limit on how long a qualifying position can be vacant, especially in light of another contract provision stating that a company can only claim reimbursement for each FTE employed for the full 12 months of the disbursement period.

In conclusion, we believe that GOED is headed in a positive direction, as shown by three indicators:

- GOED has addressed most of the concerns we raised in our December 2005 preliminary review
- Many of GOED's programs are similar to those offered by other western states' economic development agencies
- Feedback from some companies that have worked with GOED is favorable

During our fieldwork at the agency, GOED was developing strategic plans and performance measures (in the form of the Balanced Scorecard); as we have indicated, they need to address remaining key issues in strategic planning and performance metrics, including job creation data.

Recommendations

1. We recommend that GOED's executive director ensure that managing directors provide documentation of employee performance awards as required in the new policy.
2. We recommend that GOED finalize its strategic plans as follows:
 - Include quantified, time-limited objectives
 - Formalize plans in writing
 - Submit plans for management review and approval
3. We recommend that GOED reassess the performance metrics listed in balanced scorecards to ensure that the critical indicators of program success are included. GOED should:
 - Use the critical outcome-related measures, emphasizing the quantitative
 - Include targets for performance
 - Specify time frames for completion
 - Consider including short- and long-term performance comparisons
 - Use actual data, not estimated or projected data
 - Use reliable, verified data
4. We recommend that GOED staff ensure that, when possible, job creation data obtained from clients or customers are verified from independent sources, such as the Department of Workforce Services or the Utah Tax Commission.
5. We recommend that GOED and its board review IAF policy and procedure to clarify the following:
 - Requirement to use verifiable county wage data
 - Use of consistent job verification reports
 - Whether additional contract language is needed to limit how long a qualifying position can be vacant between incumbents

Agency Response

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Governor's Office of Economic Development

State of Utah

JON M. HUNTSMAN, JR.
Governor

JASON P. PERRY
Executive Director

GARY R. HERBERT
Lieutenant Governor

February 5, 2007

Mr. John Schaff
Office of the Legislative Auditor General
W315 State Capitol Complex
Salt Lake City, UT 84114-5315

RE: Draft Report Number 2007 – 04 – A Performance Audit of the Governor's Office of Economic Development

Dear Mr. Schaff:

The Governor's Office of Economic Development ("GOED") has reviewed the performance audit from the Legislative Auditor General and is pleased to have an opportunity to respond.

As a relatively new office, GOED welcomed the opportunity to meet with our auditors to discuss the progress we have made this past year as well as some of the key programs that are still evolving. Our auditors were courteous, thoughtful, and they provided excellent recommendations, most of which we have already started to implement.

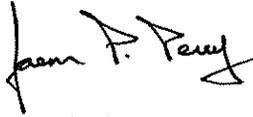
While we certainly agree with the auditor's assessment that GOED is headed in the right direction, there are some areas of opportunity mentioned in our performance audit that will help us continue to improve our service. In regard to our Balanced Scorecards, we agree with the auditors that we should continually reassess our performance metrics to ensure that the critical indicators of program success are included. Since our performance audit ended, we have met with industry experts to evaluate our metrics and we have already made significant improvements.

As with each of the auditor's recommendations, we agree that GOED should ensure that job creation data be obtained from clients or customers and verified from independent sources such as the Department of Workforce Services ("DWS") or the Utah Tax Commission. Even before this audit began, GOED was working with DWS and the Governor's Office of Planning and Budget ("GOPB") to find a resolution. Additionally, prior to the release of this performance audit, GOED had a bill drafted which is currently before the legislature to change our incentive statute to allow us to use average wage data which is updated quarterly by DWS and used by GOPB for projections.

Regarding GOED policies and procedures for incentive disbursements as they relate to the verification of job numbers, GOED always requests the company's payroll report. In those cases where this report is not provided, we will accept quarterly numbers from DWS. If there are questions to the validity of either of the payroll reports, GOED will request the other report for verification. We agree with the auditors that both reports are valid indicators of employment and we should use them for IAF incentive disbursements. Although the one job referenced in the performance audit was for a management position which was filled within a normal industry hiring timeframe, GOED has already met with our incentives committee to further improve our incentive contracts to limit the eligibility of unfilled positions based on standard hiring practices.

In conclusion, GOED appreciates the opportunity to respond to this performance audit. The recommendations made by the auditors were appropriate and we will continue to address each of them.

Sincerely,

A handwritten signature in black ink that reads "Jason P. Perry". The signature is written in a cursive style with a large initial "J" and a distinct "P" and "Perry".

Jason P. Perry