

# DIGEST OF A PERFORMANCE AUDIT OF THE UTAH TECHNOLOGY FINANCE CORPORATION

The Utah Technology Finance Corporation (UTFC) appears to have a positive effect on Utah's economy and job market. Legislatively charged with the high risk operation of aiding Utah's emerging high-technology start-up businesses, UTFC has struggled in its attempt to become financially independent of state funding. Consequently, UTFC has evolved since its introduction resulting in a gradual shift to lower risk investments and in a number of allegations concerning inappropriate operations. None of these allegations were found to be material in nature. It is our conclusion that the allegations presented us are a direct result of personality conflicts that stem from changes and expansions of the corporation's structure and goals.

Though we believe UTFC is a beneficial organization, it is very difficult to measure UTFC's economic effect in precise quantitative terms. This is because UTFC is just one component in a much larger system of public and private funding sources that provide financial and non-financial assistance for the development and commercialization of high-technology products and ideas. Measuring the effectiveness of UTFC is further complicated by the organization's evolution. The following summaries briefly describe the major finding and conclusions of our audit:

## **UTFC Has Quality Programs But Difficulty Working Within Existing Legislation.**

UTFC appears to have quality programs designed to benefit Utah's emerging high-technology companies and the economy in general. Many of the companies which have received UTFC funding believe UTFC has been an integral part of their success, or, as the case may be, their maintenance. UTFC's success, however, is mitigated by two basic but conflicting legislative objectives of aiding very young, high-risk businesses and trying to achieve financial self-sufficiency. The attempt to achieve self-sufficiency has been shown nationally to be a difficult goal when aiding higher-risk start-up companies, especially without the ability to make equity investments. In Utah, the attempt to gain self-sufficiency has meant reducing the risk involved in investments and has effected the kind of companies receiving UTFC funding.

Our positive assessment of UTFC's operation is based largely on subjective judgements of effectiveness because it is difficult to quantitatively measure the economic impact of funding emerging, high-technology business. The inability to fully measure performance is due to the fact that UTFC is only one of many components in a broad system that helps emerging high-technology businesses get established. We believe that UTFC is contributing to the establishment of new businesses and helping to create new jobs and taxes through its loan programs, but we also believe that other funding sources are responsible for this increased economic benefit as well.

While UTFC is generally receiving positive comments, some of the funded companies do have concerns. Primarily, UTFC funded companies believe the level of support given by UTFC is not sufficient given the pressing capital needs of start-up companies, especially in high-technology industries. This concern does bear some scrutiny given funding levels in other states are, on average, 10 times higher than UTFC's average funding. Much of this difference can be attributed to UTFC's past policy of lower funding levels to a greater number of participants.

**Allegations of Inappropriate Operations Are A Result of Organizational Changes.** The allegations we have received on questionable UTFC operations lack substance, and essentially result from concerns with the changing nature of the organization. The allegations questioned UTFC by-law changes, loan policies and procedures, administrative expenses, board appointments, and self-sufficiency. In each case there was a reason for the allegation but no material effect. There does not appear to be any violation of the Utah Code in any UTFC activity. UTFC board decisions have greatly shaped the direction of the organization. A number of these decisions have not been supported by individual trustees who have, at times, believed UTFC direction has not followed legislative intent, hence the allegations.

UTFC's enacting legislation is very general and has intentionally left operating decisions up to the UTFC board. The perception of conflicting goals within the legislation has, however, forced the board to adjust organizational direction and select which of the objectives UTFC should try to meet. There are, however, some board allowed activities that are no longer appropriate for the current organization. Board member contracts for UTFC work are no longer necessary given UTFC's trained staff. Additionally, organizational hiring practices should be reviewed and approved by the board in its entirety not by a limited number of members.