



Office of
LEGISLATIVE AUDITOR GENERAL
State of Utah

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A Survey of Management Controls In the Governor's Office Of Economic Development

GOED has made progress but some management control areas are still not fully developed.

In accordance with a statutory directive, we conducted a limited scope review of the recently created Governor's Office of Economic Development (GOED) to assess whether management controls are being instituted. GOED has formally existed since July 1, 2005. As we conducted our survey GOED's reorganization was well underway, with changes to its organizational structure being implemented and new or revised program activities being developed. Overall, we believe that much progress has been made. For example, GOED's divisions of Business and Economic Development (DBED) and Office of Tourism and Film have vision and mission statements in place; however, some management controls are still in process and little actual performance data are available as of yet. Furthermore, any data that are available would only represent performance over a fairly limited time span.

GOED's continuing efforts required us to do a point-in-time assessment of controls.

Issues discussed in this brief summary reflect GOED's status after three to seven months into its reorganization, depending on whether new program staff began work shortly after the beginning of the restructuring or at a later point. Because the agency is still evolving, we chose a point in time and assessed the development of management

controls as of the end of October 2005. We recognize that changes have occurred since this report was prepared.

Economic Development Relocated To Governor's Office

House Bill 318, passed during the 2005 General Session, created the Governor's Office of Economic Development (GOED) and the Department of Community and Culture (DCC) out of the former Department of Community and Economic Development (DCED). A review of DCC is not within the scope of this survey. GOED, however, was brought into the Governor's Office because of the Governor's desire to highlight his commitment to economic development in the state. The legislation creating GOED also mandated that our office conduct a limited-scope review of the agency's management and financial controls, the result of which is this report, as well as a full performance audit currently mandated to begin in March 2006.

**The new GOED has three areas:
Administration,
Business and
Economic
Development, and
Tourism and Film.**

GOED is responsible for economic development and tourism promotion at the state level. The office is organized into an administrative area and two programmatic divisions:

- Business and Economic Development (DBED)
- Tourism and Film

Figure 1 summarizes GOED's organization chart as it appeared on October 20, 2005.

Figure 1. GOED’s Organization Chart of October 20, 2005 Listed the Divisions and Programs Shown Below. The programs listed below came from the fifth revision to DBED’s organization chart, which reinforces our observation that GOED is still evolving.

| Division | Programs |
|-----------------------------------|--|
| Administration | Executive Director’s Office Finance and Accounting |
| Business and Economic Development | Science Advisor Centers of Excellence Capital Formation Entrepreneurial Development Economic Clusters Procurement Technical Assistance Rural Development International Trade and Diplomacy Talent Acquisition Business and Technology Parks Corporate Recruitment and State Incentives |
| Tourism and Film | Film Tourism |

DBED has some new programs while the new Office of Tourism and Film combines two previously separate programs.

DBED includes some new programs and a change in focus of some previously existing programs. An example of a new initiative is the Business and Technology Parks program, the goal of which is to initiate the development of a new research park for emerging business and technological firms.

The Office of Tourism and Film combines two previously separate programs within DCED. Changes within this area of GOED include revision of the tourism program’s structure to reflect the importance of its new advertising and promotion program and an increased emphasis on timely follow-up of initial contacts made with media and travel tour operators. The film program has come through the reorganization largely unchanged; this program markets Utah as a location for film and commercial production and also promotes the use of local talent in the productions. We focused on the tourism program for this survey because of the changes occurring there.

A third area which appeared on several early versions of the GOED organization chart was the Energy Office. Legislation in 2005

disbanded the Office of Energy and spread functions among existing agencies. Until recently, the Office of Energy appeared on GOED organization charts. However, the Governor's energy advisor testified to the November 2005 Public Utilities and Technology Interim Committee that the energy function was not under GOED, but that she, as energy advisor, reported directly to the Governor.

However, further clarification may be needed since Senate Bill 199, Section 13 (General Session 2005) contains language that implies the energy function would be under the GOED:

(1) The Legislature's Public Utilities and Technology Interim Committee shall monitor and study the implementation and consequences of the elimination of the Energy Office and the assumption of the Energy Office duties and responsibilities by the Governor's Office of Economic Development.

At this point, it is unclear whether all issues surrounding the Energy Office have been resolved. However, in-depth work on the Energy Office is beyond the scope of this preliminary review.

Scope and Objectives

This survey is not a traditional performance audit, which looks at an organization's past performance to evaluate efficiency and effectiveness or address concerns raised by a requestor. Instead, we performed a limited-scope review at the onset of agency operations to determine whether management and financial controls were being put in place at GOED as the organization geared up.

In conducting the work, we used a best practices approach as outlined in our *Best Practices for Good Management* publication, which provides a new state program or agency with information on essential management controls. We looked at these controls as we reviewed the early stages of GOED's operations. A full-scope performance audit will be conducted at a future date, when audit tests will be performed on GOED's efficiency and effectiveness as well as the management controls mentioned throughout this report.

This review is not a traditional audit but a point-in-time survey of GOED's management controls.

The objectives for this preliminary review reflect our focus on management controls as follows:

- To review GOED's organizational structure and assess how oversight and governance issues will be addressed
- To assess the development of strategic planning and of program policies and procedures
- To assess the development of performance standards and the data collection needed to allow assessment of performance
- To assess the status of budgetary and financial controls

In the three sections that follow, we discuss the management controls listed in the objectives above as they apply to GOED's administration, the Division of Business and Economic Development, and the Office of Tourism and Film. Each section contains a summary table showing the status of each management control followed by relevant discussion. The report concludes with a section directed to the Legislature as well as recommendations.

Some Administrative Controls Need Strengthening

Although most of our review examines management controls in the programmatic divisions in GOED, we observed that some controls relevant to the administrative areas also need attention. Figure 2 below presents a list of the management controls we reviewed and the status of those controls relevant to GOED as a whole.

Figure 2. Some Management Controls in GOED Need Attention as the Reorganization Is Completed. This figure lists management controls in relation to the administrative function.

| Management Control | Status |
|-------------------------------|--|
| Governance and Oversight | Legislative options for formal oversight have changed |
| Organizational Structure | Long-term administrative support is lacking |
| Strategic Planning | (Discussed for each GOED division; see Figures 3 and 4.) |
| Policies and Procedures | Some practices vary from statewide policy |
| Performance Standards | (Discussed for each GOED division; see Figures 3 and 4) |
| Budget and Financial Controls | Can be strengthened |

The following discussion relevant to GOED-wide management controls is included for the agency to consider as it moves forward with implementation; the issues are arranged in the order shown in Figure 2. These are areas that would be included in the full audit of the agency, which is already scheduled.

Legislative Options for Formal Oversight Changed

With approval of the restructuring that relocated the state’s economic development agency to the Governor’s Office, the Legislature lost one avenue for formal oversight: GOED can no longer promulgate administrative rules. However, GOED administrators indicated the office has rarely used its rulemaking authority in the past. They stated that situations formerly needing such rules will now be handled by developing internal policies or by executive order if needed. The executive director stated that when program activities call for the involvement of other agencies, such as the Tax Commission, memoranda of understanding (MOU) are being used. Additionally, he indicated GOED could make its contracts and MOUs public in a good faith effort to provide accountability. These controls are areas for further review in the full audit.

The Legislature lost one avenue for formal oversight and input because GOED lacks authority to issue administrative rules.

Some administrative functions are being provided by other offices on a temporary basis.

Organizational Structure Lacks Long-Term Administrative Support

When DCED split into GOED and the Department of Community and Culture (DCC), the human resources and information technology functions were assigned to DCC, with a transfer of funds to GOED in lieu of providing these areas of support. In addition, GOED's attorney retired and the position was eliminated; staff state they have experienced difficulties getting legal assistance. We were told that an economist position was also eliminated. GOED administrators told us they need their own support services to run their programs effectively. In fact, one division director stated that the lack of human resources staff has been "crippling" efforts to manage employment needs. Currently, these functions are provided through the Governor's Office of Planning and Budget, the Department of Human Resources Management (DHRM) and other agencies, but only on a temporary basis.

This lack of administrative support staff raises another issue: how will GOED administrative policies be put into practice if there are not enough administrative support staff available to perform these functions?

Some GOED Procedures Differ From Statewide Policies

According to GOED administrative staff, statewide administrative policies that had been in effect for DCED are still being used by GOED. However, GOED personnel practices differ from many state Human Resources policies because most staff are exempt. For example, staff incentive (bonus) practices have been handled differently from procedures laid out in statewide policies. These and other GOED practices that differ from statewide policies should be formalized and approved as agency policies.

Budget and Financial Controls Can Be Strengthened

During the current fiscal year (2006), the salaries of several DBED directors are being paid from one-time carry-forward funding. The use of one-time money to fund ongoing expenses goes against generally accepted financial practices. DBED is now reliant on the

Payment of salaries from one-time carry-forward funding needs to be addressed.

outcome of its new budget request for the future financial health of several programs. If funding is not increased, the division will need to reallocate existing program money to cover personnel costs next year, which could adversely affect the division's ability to proceed with the implementation of its initiatives. GOED should have an administrative review process ensuring that ongoing budget items are funded with ongoing monies.

To summarize, while the organizational frame is fairly well established, we observed that some overall management control issues have not yet been resolved. In addition, as we will discuss in the remaining sections, program operations need time to gather performance data.

Economic Development Division Still “Developing”

The Division of Business and Economic Development (DBED) in GOED is the area with the most changes being implemented. Within a couple months of the division's official creation, a significant amount of work had been accomplished. Changes include a realignment of division structure into three functional areas as well as shifts in focus for existing programs and the creation of new programs. In addition, nearly all division staff, particularly program directors, are newly hired. The program restructuring is still underway but appears to be near completion. However, some management controls are still under development and we have concerns about some unresolved issues. Division management has indicated that work on control areas is either planned or in process. Figure 3 below gives a summary of DBED's management control status; discussion of each area follows.

DBED's structure is in place and most controls are in process. Planning, policies, refinement of performance metrics, and budget and financial controls still need work.

Figure 3. Management Controls in DBED Are Being Developed.

| Management Control | Status |
|-------------------------------|---|
| Governance and Oversight | Change in board's role seems to limit options for oversight |
| Organizational Structure | In place; Many staff are newcomers to government service |
| Strategic Planning | Vision and mission in place; Goals and objectives in process; Plan for sustainability incomplete |
| Policies and Procedures | Need to be formalized |
| Performance Standards | Program standards in process; Incomplete information on staff performance incentives; More time and data needed to allow performance assessment |
| Budget and Financial Controls | Unresolved issues |

The following discussion provides additional information about the control areas summarized in the figure above.

Some Governance and Oversight Issues Are Unresolved

It is still too early to assess how oversight issues will play out. Bringing the economic development function into his office seems to imply the Governor will provide oversight either directly or through his economic advisor. Some changes, however, have limited the options for independent oversight. For example, changes in the GOED board's role have made it primarily an advisory board, except in relation to Industrial Assistance Fund activity, thus limiting its oversight authority. Also, the loss of administrative rulemaking authority, discussed earlier, changes the options for legislative oversight.

GOED's board has a more advisory than policy role except for Industrial Assistance Fund activity.

Organizational Structure Is in Place; Many Staff Are New to Government

DBED's revised structure appears to be supportive of its vision of enhancing economic development in the state. Programs have been realigned into three groups according to whether their primary function is to help create, grow, or recruit businesses. These three areas of emphasis were developed by the new director as a result of his initial research and surveys of the Utah business community. While the structure is in place, we have not reviewed reporting relationships at this time and will include such a review as part of the full performance audit.

Beyond strictly structural concerns, we found that nearly all programs have new directors, many of whom are also new to public service. The directors need to become familiar with their programs and also with government processes. For example, the upcoming legislative session will be the first time through the appropriations process for most of them. In addition, the loss of over 30 staff early in the restructuring process means that new directors lack access to institutional knowledge and past performance data that would provide context for their efforts.

Strategic Planning in Process, but Issue of Sustainability Needs to Be Addressed

We found that the division's vision and the mission statements are in place. The mission of the division is ". . .to create jobs that raise the standard of living of Utah's citizens by enabling our companies to be successful." The director has also developed a list of core values that has been disseminated to the staff. Stepping down from the mission statement, DBED has articulated goals for its programs and identified metrics (performance measures), or *what* to measure to determine success. However, thus far, we have not been shown quantification of *how much* of a given performance measure has been set as a target. (See the section below on Performance Standards for more discussion.)

One planning concern is that sustainability of the new initiatives needs to be addressed. We were told that program directors were recruited with the understanding that they would serve the state for a period of time and then go back to their private sector careers. In this

Challenges exist for staff who are new to the public arena and have little access to past program data.

Quantification of program objectives is needed and the issue of how new initiatives will be sustained must be addressed.

case, the division needs to plan how its new initiatives will be sustained after program directors leave. Several programs lack line staff who could be mentored or trained to take over a program after a director leaves.

Program Policies and Procedures Need to Be Formalized

Formal, written program guidelines are not in place at DBED. While we believe management and staff have a good understanding of where programs are headed, written policies and procedures are needed to formalize the parameters within which program activities occur. Such formal guidelines will allow for program continuity in the inevitable event of a director or other key staff leaving a program.

The development and implementation of DBED policies and procedures—particularly the staff evaluation and incentive policy—are areas that merit further review and will be included within the scope of the full performance audit.

Performance Standards Are in Process

As mentioned above, program directors and staff have identified what to measure to assess program performance; for example, the failure rate of new companies or technology sector growth. Each group of programs (creating, growing, and recruiting companies) has a primary performance measure or metric, and each program in the group also has main indicators or metrics.

An unresolved issue for future review is whether the measures will be quantified and whether time limits will be added. To illustrate, measures should specify reducing the failure rate of new companies by X percent over the prior year or increasing technology sector growth by Y percent during the coming year. The division director noted that a lot of progress has been made, especially considering that this effort largely started from scratch in the absence of past performance goals and data.

One part of measuring performance is to develop a way to assess the return on investment (ROI) for program efforts. At the request of the Governor, DBED program directors developed formulas to compute program ROIs. The methodology used to estimate the ROI

Written policies and procedures are needed for DBED program activities.

Performance measures are being developed but still need to be more specific and time-limited.

seems reasonable, according to the staff economist for the Office of the Legislative Fiscal Analyst, who reviewed the ROIs while also reviewing DBED's new budget request. The job data used in computing the ROIs are projections of future job creation because actual program data are not yet available for most programs.

More time and data are needed to allow for program performance assessment to be done. In our opinion, DBED staff need time to complete the development of management controls and to accumulate performance data so that assessment against their performance targets or metrics is possible. Less than one year's data will have been recorded by March 2006, when a performance audit is currently scheduled to begin. We also note that assessing performance improvement will be made difficult by the lack of historical data. Instead, with fiscal year 2006 as a baseline, several years' data will be required to show trends in performance unless the issue is resolved by locating existing historical data.

Regarding performance measures for staff, administrative guidelines have been written for the development of staff performance plans and for staff evaluation. Our review of the initial round of actual staff incentive awards, however, found many that lacked documentation or justification; performance reviews were not always completed for staff who received bonuses. Also, we could not identify a pattern or relationship in the level of performance compared to the amount of the bonus. Another concern is why bonuses were given so soon into a new operation. The majority of the awards were dated July 2005, the month the agency officially began operations. In the full audit, these issues will be examined in greater depth.

Issues with Financial Controls Include Budget Request and Contracts

DBED has requested a significant budget increase for fiscal year 2007. If funded, the budget would increase from \$9.65 million to \$24.64 million, or 155 percent. However, DBED has been operating for less than a full budget cycle and has little actual performance to use as justification for such a large increase in funding. In our opinion, the division could present a more persuasive argument for increased funding after documenting successful performance.

DBED has requested a large increase in its budget for the next fiscal year.

EDCU contract appears to focus on output or activity rather than on outcomes.

In a different area, the responsibility for recruiting businesses to locate in Utah has been contracted to a private recruitment firm, the Economic Development Corporation of Utah (EDCU). We reviewed the contract only briefly but have some concerns about performance and reporting requirements. For example, a clause near the end of the contract states that an important measure of contract compliance will be the activities outlined in the contract. This language calls for evaluation on contractor output (activity), not outcome or results (number of companies relocating to Utah). Other concerns exist which will be reviewed in the full audit.

Finally, it appears that GOED purchase and payment procedures follow state guidelines. According to GOED's financial manager, the division has been following the State Division of Finance policies and procedures for purchasing and payments. For example, GOED follows the established purchase price level (\$1,000) beyond which bids and approvals are required. Within a program budget, the directors can move funds as needed, but a budget increase requires management approval. These controls appear to be reasonable and in line with state policy, but we did not conduct tests as part of this initial review. Such testing will be included in the full audit.

Changes in Tourism Include Large Funding Increase

The tourism program has seen a large infusion of funding, so contract oversight will be an important control.

GOED's other division, the Office of Tourism and Film, has brought the tourism and film programs together under one director. With the restructuring, the tourism program is being reorganized and has seen some staffing changes, with a couple vacancies still to fill. The film program remains largely unchanged, with recent updating of its policies and strategic plan. Tourism program policies and procedures are being developed; in addition, the program's strategic plan is being rewritten. A significant addition of funds (\$10 million in fiscal year 2006) allowed the awarding of a multimillion dollar contract for tourism promotion. A strong contract and performance monitoring are needed to ensure that this infusion of funding to the tourism program is effective. As of the end of our on-site work, these controls were being developed.

Figure 4 below provides a summary of the status of the management controls we reviewed at the Office of Tourism and Film. Because of the changes in the tourism program and the increased funding, we focused on the tourism program specifically in this preliminary review. However, both tourism and film programs will be included in the full performance audit.

Figure 4. Management Controls in the Office of Tourism and Film Are in Process. For this review, we focused on the development of controls in the reorganized tourism program.

| Management Control | Status |
|-------------------------------|--|
| Governance and Oversight | Tourism board has both policy and advisory duties; Governor's economic advisor reportedly has regular input |
| Organizational Structure | In place |
| Strategic Planning | Vision and mission in place; Plan being rewritten |
| Policies and Procedures | Using some DCED administrative policies; Program policies are incomplete |
| Performance Standards | Contracts include performance measures; Old DCED performance plan used for staff evaluations |
| Budget and Financial Controls | Controls over important contracts being implemented; effectiveness unknown at this point |

The following discussion provides additional information about the control areas summarized in the figure above.

Governance and Oversight Includes Governor's Office and Boards

According to the division director and Legislative Research and General Counsel staff, the tourism board has a combination of policy and advisory duties in relation to the division. Policy authority exists with the state's tourism advertising, marketing, and branding plan, and

The director sees the board as having significant policy authority as well as an advisory role.

with the cooperative marketing program with local entities. The director views the policy authority of the tourism board as significant enough to call it a policy board that has meaningful advisory input as well. The GOED board has a limited policy role in relation to the office when it reviews and approves funding for film incentives from the Industrial Assistance Fund.

The director stated that weekly input and feedback are provided by the Governor's economic advisor.

As with Economic Development, the Governor stated that he felt it was important to bring the Office of Tourism and Film into his office. In our view, his expressed interest carries with it an implication of providing oversight and direction, whether directly or through an advisor. In fact, the tourism director indicated that weekly meetings are held with the Governor's economic advisor for input and feedback and also that the Governor has been involved in some program activities. For example, the Governor has provided his input on the state's rebranding campaign.

Organizational Structure in Place

The Office of Tourism and Film's new organizational structure is in place. The tourism program has been reorganized to reflect two emphases: first, marketing and advertising; second, operations and fulfillment. In contrast, the prior organizational structure was set up to focus on internal (Utah residents) versus external (tourists from out of the state) travel. The film program has changed its physical location to the same building as tourism but its organizational structure has not changed. While the structure is in place, we have not reviewed reporting relationships at this time and will include such a review as part of the full performance audit.

Tourism Strategic Plan Being Rewritten

A significant increase in tourism promotion funding and new direction for promotional activities means the strategic plan for tourism activities needs to be revised. In fact, the director rightly indicated that the new promotional initiatives required a new plan. The first draft of a plan has been developed by office administrators, and the director recently distributed it to all staff for their input. We agree with the director's decision to obtain staff buy-in for the new plan. Our review will be done after the plan has been finalized, as part of the full audit.

With the increased funding and other changes, tourism's strategic plan is in need of and is undergoing revision.

Written policies are needed for both previously existing and new programs.

Policies and Procedures Are In Process

The Office of Tourism and Film has been using some preexisting DCED policies for some of its administrative activities, as has the rest of GOED. However, these policies are most likely in need of review and updating. For example, as we reviewed the employee incentive awards given by the office for fiscal year 2005, we found that the director had used the DCED performance award process from the prior year. DHRM rules require that these plans be updated annually, so we will revisit this area during the full audit.

At the program level, tourism policies and procedures are incomplete. According to the director, tourism program activities that had been in place before the reorganization had no written policies. Thus, existing activities as well as new program initiatives need written policy direction. Tourism policy development had begun as this report was being written but draft policies were not yet available for our review. The director indicated that the film program's policies would serve as a template for the development of tourism policies.

Performance Standards Included In Contracts

Because nearly all of tourism's funding increase is being used for three contracts, our program-level review of performance measures focused on these agreements. Numerous other activities occur in the office, but we limited this preliminary review to programs funded from the recent appropriation. Because there is a close relationship between performance standards and financial controls with the tourism contracts, the discussion on performance measurement can be found in the financial controls section below.

Budget and Financial Controls Being Implemented

The tourism program has responsibility for oversight of contractual agreements in three important program areas. Increased funding allowed the program to enter into a contract for \$7.25 million for advertising and marketing services for fiscal year 2006, with additional funds for years two and three. Additionally, contract agreements are being signed to use a \$2 million appropriation for

Major contracts specify how funds may be spent and include other accountability measures.

Time is needed for performance data to accumulate, providing a reason to postpone a full performance audit.

cooperative marketing programs and a \$750,000 allocation to a sports organization to promote Utah as a location for sporting events.

We looked for controls and oversight activities for the above listed contracts. A deputy director has been assigned primary responsibility for contract oversight. Each of these programs is being implemented through written agreements that spell out how the funds shall be used as well as how reporting for accountability and other oversight activity will occur. Outcome measures are specified in the large tourism promotion contract. We should note that the previously discussed staff support issue arose in discussions about this contract; in the absence of a staff attorney, the director indicated that she had to go to three different attorneys while trying to get the contract drafted. Finally, another contract, with the sports promotion organization, provides for two semi-annual payments to be made instead of more closely tying payments to performance.

Because these contracts were in the early stages of implementation at the time of this review, we were unable to assess the effectiveness of contract oversight over time. Once a period of actual performance has passed, data should be available for review. One planned measure of the success of the advertising and marketing contract is an increase in tourism-related tax revenues. However, the director cautioned that this change will likely not be evident for about 18 months from the implementation of the new promotion campaign. If this is the case, the lag time needed for performance data to be available provides reason to postpone a full performance audit, as discussed further in the next section. Future audit work will include a review of how contract controls were implemented and how staff conducted oversight activity.

Postponing Full Audit Would Allow GOED to Compile Performance Data

As shown in this preliminary review, GOED has made significant progress in restructuring and initiating programs. However, a number of management control areas still need to be addressed within GOED's administrative area and the two divisions. With a full performance audit statutorily scheduled to begin in just under three months (March 2006), we believe GOED would be unable to provide sufficient data for the typical in-depth audit we conduct. In our view,

the Legislature should consider postponing the full audit for at least a year. Advantages of doing so include the following:

- GOED would have time to complete or refine management controls as discussed throughout the report.
- More performance metrics and data would be available.
- A full budget cycle would be completed, with associated expenditure data available.
- GOED directors and staff—some of whom were hired as recently as July 2005—would have more time to get programs going as well as to become more familiar with state government processes, including the appropriations process.
- Because of the added time to operate and accumulate performance and expenditure data, we would be able to conduct more specific audit tests.

To summarize, this limited review is not a traditional performance audit but a point-in-time assessment of GOED's progress in developing management controls as it begins operations. Thus, our aim has been to recognize progress as well as to point out areas needing further work. As a result of our assessment, we believe it would be to GOED's benefit, and would also allow a more meaningful audit, if more time were given for completion of both the reorganization and the implementation of necessary management controls. A postponement would likely mean that a report on the full audit would not be available for the 2007 General Session of the Legislature.

A more complete audit could be conducted after controls are finalized and data are available for review.

Recommendations

1. We recommend that the Governor's Office of Economic Development continue to implement management controls outlined in this preliminary review in preparation for a full legislative performance audit.

2. We recommend that the Legislature amend the uncodified language in HB 318, sect. 169 (2005 General Session) to postpone the GOED performance audit's starting date until adequate performance data are available, which may be a year or more.

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Agency Response



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December 9, 2005

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Auditor General Schaff,

I have reviewed the "Exposure Draft" of your Survey Report of Management Controls in the Governor's Office of Economic Development (GOED). This letter represents our response to the "Draft" report.

After consultation with the two managing directors of GOED, we all agree that the report is an objective and accurate analysis of a "point in time" review of our operations.

We appreciate the efforts of your auditing staff in spending the necessary time to learn both the history and evolutionary process of our new office. As indicated in the report, our office became official July 1, 2005 although changes affecting the new office began in January 2005.

As part of the changes initiated by a new administration, all but two program directors were terminated. This necessitated repopulating the existing programs. In addition our charge was to review existing programs and determine if there were gaps that justified new program initiatives to insure a complete economic development strategy for the State.

The "Gap Analysis" demonstrated the need to develop several new "Pilot" programs to complete our strategic plan. These new pilot programs have been funded with one-time carryover monies. Decisions regarding the efficacy of the new programs may require a reallocation of on-going monies if additional money is not appropriated by the 2006 Legislature.

The Tourism/Film programs have enjoyed a significant increase in funding as well as a reorganization of the Tourism Board with a mandate to create a new "Branding" initiative for the State. In addition Council Hall has undergone a major interior retrofitting. These responsibilities have resulted in a huge increase in the workload for these understaffed programs.

As part of our evolutionary process, we will be formalizing all our policies and procedures as well as developing better performance metrics for our programs and contracts.

Sincerely,

Richard J. Bradford
Director

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