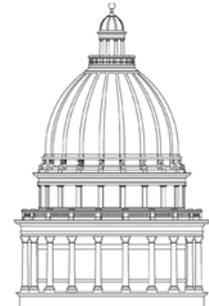


Office of
LEGISLATIVE AUDITOR GENERAL
State of Utah

REPORT NUMBER 2010-09
July 2010



**A Limited Review of State-Funded
Business Programs and Initiatives**

The Legislative Auditor General's Office was asked to determine whether there is possible duplication in the business programs and initiatives currently funded by the state. We found that the business programs are not duplicative. Instead, each program focuses on a specific business need with little overlap.

We believe that the structure of the Business Resource Centers (BRC), administered by the Governor's Office of Economic Development (GOED), is a natural check on possible duplication. An examination of program expenditures gives further evidence of the uniqueness of each program. In fact, Utah provides much greater program coordination than other states we reviewed. The programs we reviewed have tasks that are not duplicative and provide valuable and unique services to Utah businesses. However, to improve coordination, GOED should consider using the BRCs as an advisory board to all business assistance programs in the state. Additionally, we are concerned with the amount being paid to the Utah Defense Alliance (UDA) and possible conflict of interests with Logistics Specialties Inc (LSI).

In addition to asking for a review of programs for possible duplication, the requestor also asked us to determine a standardized

**Our limited review did
not find duplication
among the business
programs examined.**

return on investment for the state to use in monitoring and evaluating these programs. However, the Legislative Fiscal Analyst (LFA) was also tasked with this duty through the Economic Development and Revenue Appropriations Subcommittee. The Audit Subcommittee co-chairs asked us to reduce scope and for the sake of efficiency, we have avoided duplicating LFA's work. The return-on-investment analysis will be coming from the LFA's office and will be issued later in a separate report.

Business Programs Are Specialized and Lack Duplication

In fiscal year 2009, the Utah Legislature appropriated \$125,000 to help establish the BRCs. The BRCs are established through GOED and housed at public institutions of higher learning or at community locations. According to the GOED website, BRCs "are certified one-stop resource centers providing coordination of business support, education, tracking of clients, access to sources of funding, training, technical expertise, talent, and networking for new and existing businesses." This mission is accomplished through the housing of multiple programs in one location which provides an array of resources. The BRC board provides oversight of the BRCs. As will be discussed later, the coordination of resources and general knowledge of business programs would allow the BRC board to act as the overall advisory board to business programs throughout the state. As shown in Figure 1, program categories housed in the BRCs are very specialized.

BRCs house multiple programs in one location providing an array of resources.

Figure 1 Five Primary Business Resource Centers (BRC) Programs. BRCs provide assistance to companies by housing a number of different programs that each specialize in different areas of expertise. This is an example of programs that are included in several of the BRCs.

Assistance Type	Program	Purpose	An Example of Service Provided
Manufacturing	Manufacturing Extension Partnership (MEP)	Improve manufacturing processes	Incorporation of IT in manufacturing processes
Business Development	Small Business Development Centers (SBDC)	Provide management assistance to small businesses	Business plan and SBA application assistance
Procurement	Procurement Technical Assistance Center (PTAC)	Obtain government contracts	Bid notification and assistance
Job Training	Custom Fit	Provide customized employee training	Training Course in safety for employees
Technology Development	Utah Science Technology and Research Initiative (USTAR)	Develop Utah technologies	Technology commercialization grants

Business Resource Center Structure Encourages Program Specialization

The \$125,000 appropriated to BRCs helped fund three resource centers: Davis County, on campus at Utah Valley University, and at Southern Utah University. There are additional BRCs that have been set up without funding at Bridgerland Applied Technology College in Logan, at Dixie State, Carbon County and at Salt Lake Community College Miller Campus. There is also a private BRC that is set up in Salt Lake City. The BRCs house many different business resources, as well as coordinate services to businesses seeking guidance.

According to GOED’s website,

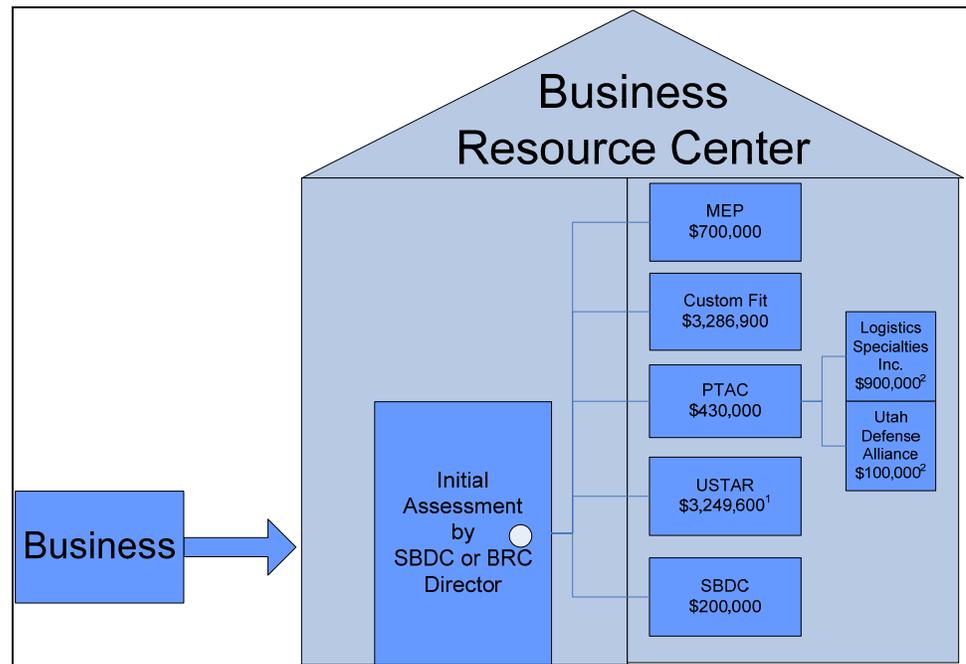
BRCs will partner with various business service providers located in their local service area and assist in the coordination of their activities, identify gaps in provided services, develop initiatives and provide opportunities.

We found that the lack of duplication is due largely to the structure of the BRCs.

We found that the structural setup of the BRCs contributes to a lack of duplication. When a new business enters a BRC, they are directed, often by the Small Business Development Centers (SBDC), as to which service, or combination of services, will best meet the needs of the business. The structure of the BRCs lends itself to specialization, as each entity housed within the BRC serves a particular purpose. When a business completes an aspect of a program and needs further assistance, the business moves on to another entity within the BRC. The BRCs are structured to have many different resources at their disposal to provide for a variety of business needs. Each BRC is structured in a somewhat different manner. In addition to the state funded programs, many have different partners onsite, and some have non-state funded entities partnered in the BRC's. A general representation of the BRC model is depicted in Figure 2.

Figure 2 Business Resource Center (BRC) Model. The process for Utah businesses is to be assessed by the SBDC or a BRC director when they first enter a BRC. This figure shows many of the programs and their total fiscal year 2010 state funding for all BRC partners (\$8,866,500 total).

A typical business will enter a BRC and be evaluated by the SBDC to determine what services are appropriate.



¹ Estimated technology outreach only. Does not include administration or research teams funding.
² Ten percent of \$1 million LSI contract was given to UDA for oversight function in fiscal year 2011.

The BRC structure provides for a specialization of business services with each program developing its unique area of services and assistance. For example, MEP would be enlisted to aid companies

seeking help in manufacturing and would not be contacted to help with a business seeking procurement assistance or job training.

PTAC, through the Utah Defense Alliance (UDA) has contracted with Logistics Specialties Inc. (LSI) to provide specialized procurement assistance. This relationship will be discussed later in the report.

There are other business programs that are not mentioned in our diagram such as Centers of Excellence and EDCUtah, that have specific business assistance missions, but are not housed at the BRCs. For example, EDCUtah recruits out-of-state companies that are searching to relocate their businesses. Programs such as these have specific missions, so duplication is very unlikely to occur between the programs.

**Review of Expenditures
Demonstrates Lack of Duplication**

To further demonstrate the lack of duplication, we examined business program expenditures to verify that each program’s funding and expenditures were unique. Of the expenditures reviewed, there were no apparent instances where funding was used in a duplicative manner or the same business received funding from two different programs.

We looked at the expenditures of each of the business programs. We found that each program administrator spent money in pursuit of different ends, as shown in Figure 3.

Figure 3 Expenditures Differ Among the Various Programs. The expenditures from the various programs are spent on mission specific tasks and are not duplicative.

Program	Spending Focus
USTAR	Awarding grants to establish technology commercialization stemming from Universities
Custom Fit	Providing training for employees in partnership with Utah businesses
MEP	Providing Manufacturing efficiency counseling and project development in the manufacturing field
PTAC	Connecting Utah companies to government contracts through networking and counseling in government procurement regulations

Programs such as EDCUtah and Centers of Excellence have such specific missions that duplication is unlikely to occur.

We examined business programs expenditures to verify that funding and expenditures were unique.

We determined that although counseling is offered by several different programs, that the counseling is unique and specific.

We also examined money expended on counseling, as this service is provided by several of the business programs. However, we determined that although counseling is offered by several programs, the counseling provided is unique to each program and specific to the business need, as shown in Figure 4.

Figure 4 Counseling Resources Do Not Duplicate Efforts. Despite the multiple programs that provide counseling, the services offered vary in assistance they provide.

Program	Counseling Offered
Custom Fit	Job training
SBDC	Business plan creation
MEP	Manufacturing efficiencies
PTAC	Winning government contracts

GOED Provides Additional Coordination

In looking into the expenditures of each of the programs, we found that GOED provides administrative oversight of the BRCs themselves. An advisory board formed by GOED provides the operational oversight of the BRCs. However, the individual programs within the BRCs are each governed by individual boards and are funded in different ways, which could make coordination difficult in the future.

GOED could improve their coordination of the different entities within the BRCs by making the BRC board an advisory board over all the different programs. This central coordinating board would help facilitate coordination and focus as the programs continue to grow and develop. The BRC board is currently governed by statute and broadening its function may require a modification to statute. Each of the programs has been invited to attend the BRC advisory board, and participation has been good. However, broadening the scope of the BRC board could further increase the interest and participation from all business programs. We therefore, recommend that GOED consider using this board as the overall coordinating board for the programs housed within the BRCs and that it work closely with the GOED Board of Business and Economic Development.

While we believe that the GOED programs are well defined and are not providing duplicate services, GOED should continue to

GOED could improve the coordination of the BRCs by making the BRC board an advisory board over all the business programs.

monitor for duplication as these different programs evolve. A centralized coordinating board would be the vehicle GOED should use to help the programs monitor possible duplication and provide guidance.

Other States Have Less Coordination Of State-Funded Business Programs

We looked at surrounding states to see if Utah compared favorably on the issue of duplication. We found that Utah is generally better organized on a statewide basis than other states that choose to focus more on regional coordination, as shown in Figure 5. We believe that Utah’s statewide organization provides a safeguard against duplication.

Figure 5 Other States’ Information Regarding Business Coordination. It does not appear that other states co-locate business development efforts as effectively as Utah.

State	How the Coordination Differs From Utah’s
Arizona	Has state coordinating office, but no physical location for businesses to enter and be evaluated
Colorado	Has regional offices with information on the programs, but not co-located
Idaho	Has SDBC’s in six different locations coupled with higher education
Oregon	Has regional offices with no co-location of business program offices

In our research, we found that Utah appears to be one of the first states to implement a one-stop shop for businesses to come and be counseled on the type of aid they need. We believe this is an efficient way to coordinate the different needs of Utah business.

While duplication of business services does not appear to be an issue, we did find one area which needs more GOED involvement.

GOED Should Examine Contract with Utah Defense Alliance (UDA)

In looking at the individual missions of the organizations, we came across an issue that we believe GOED should examine during their

In our research Utah appears to be one of the first states to implement a one stop shop for businesses.

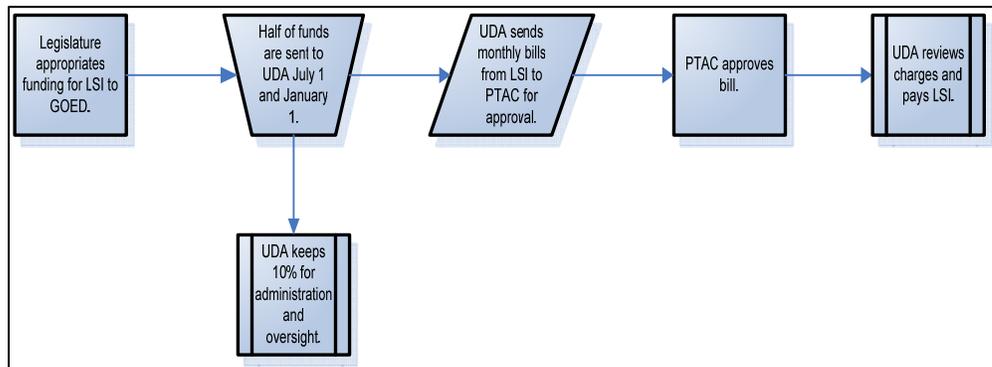
We believe GOED should revisit the contracted amount and review or clarify the services provided by UDA.

next contract renewal period. As mentioned earlier, UDA has contracted with LSI to provide specialized government procurement assistance. UDA is currently contracted to receive 10 percent of the appropriated amount for LSI in return for board oversight and strategic direction. In fiscal year 2010 that amounted to \$100,000. The justification for both the \$100,000 amount and the services UDA provides to LSI are unclear. We believe GOED should revisit the contracted amount and review or clarify the services provided by UDA. Additionally, possible conflicts of interest should be more closely monitored by GOED to ensure contract compliance.

LSI Funding Flows Through GOED to UDA

The current funding for LSI is separate from the other programs funded through GOED. In fiscal year 2010, LSI was appropriated \$1 million from the Utah Legislature for counseling and assistance to Utah businesses seeking to win government contracts. In fiscal year 2009, LSI aided Utah companies in securing more than \$214,000,000 in contracts. It was reported to us, that UDA was funded at the 10 percent amount because it was generally believed that was intent of the legislature. The funding and payment stream from GOED to LSI is illustrated in Figure 6.

Figure 6 The GOED, UDA, and LSI Billing Process. GOED reviews the appropriation and pays UDA in two increments, and LSI invoices UDA. GOED/PTAC approves invoices, and UDA pays LSI.



Currently, GOED receives the appropriated money, and deposits half at the beginning of the year and half in the middle of the year into the UDA account. LSI bills monthly invoices to UDA, the PTAC

director at GOED signs off on the invoices. Then, LSI is paid out of the UDA funds.

UDA Board Provides Limited Oversight

We questioned what services UDA provides as the middleman between LSI and GOED, as shown in Figure 6. When we spoke to GOED, LSI, and UDA, they each stated that in exchange for the funding, the UDA board provides oversight and strategic direction over the LSI expenditures. However, there was little specific information as to what services they provide for the administrative fee charged to GOED.

A review of the UDA board minutes reveals that the board approves the LSI invoices at each monthly board meeting. However, the board minutes do not depict any sort of in-depth review of the LSI invoices. Most often, the minutes simply state that the invoice was approved unanimously; there is no further detail of review or oversight. The PTAC representative currently reviews the LSI invoices and signs off on the payment amount. LSI is then paid from the UDA account.

We are concerned that the amount paid to UDA is not tied to clear performance requirements. Due to the lack of documentation, there does not appear to be a way for us to determine if LSI was getting enough review and direction to warrant the \$100,000 paid to UDA out of the legislative appropriation.

GOED has already moved to address these issues in their proposed upcoming contract renewal with UDA. A draft contract shown to us demonstrates a decrease in administration fee and clear performance requirements attached to the administration fee. The administrative fee in the draft contract is lowered from the previous 10 percent to 4 percent, and UDA is now required to provide documentation on where the administrative money is spent.

Possible Conflict of Interest Exists for LSI

In our research of the business programs we discovered that the corporate office of LSI has a subsidiary company that provides parts and services to military bases within Utah. LSI is the only company

Our review of UDA board minutes does not demonstrate any significant review of LSI expenditures.

It is unclear whether LSI was getting enough review and direction to warrant the \$100,000 paid to UDA.

contracted with UDA and, therefore, contracted with GOED to provide consulting services for Utah companies seeking to win military contracts.

We believe that this situation could be problematic, as companies counseled by LSI could be in direct competition with a company owned by its parent company. Although, this type of conflict has never occurred between LSI and its parent company, the possibility exists and should be addressed.

Unrelated to the above issue, there has been a complaint in the past of a conflict of interest. The accuser believed that the state was subsidizing their competition by helping to coordinate contractors and sub contractors. The complaint was investigated by UDA and determined to not be an actionable conflict, and it was no longer pursued by the accuser.

However, the contract between UDA and LSI states that possible conflicts need to be declared. We determined that LSI has only once declared any conflict of interest to UDA; however, this occurred after a complaint had been made. UDA is aware of the concern and, in an effort to address it, has strengthened the conflict-of-interest statement in their contract with LSI. Still, we believe GOED should be more closely involved with oversight of conflicts of interest and monitoring for contract compliance when state money is involved.

GOED is also addressing these conditions in their new draft contract mentioned previously. For example, the new draft contract has GOED playing a larger role in oversight of conflicts of interest with UDA. They have included a conflict of interest clause in their draft contract, as well as requiring a member of GOED be a voting member on the UDA board. We believe if these changes are made as stated in the draft contract, that it will address our concerns in these areas.

We believe the GOED should be more involved with the oversight of conflicts of interest and the monitoring of contract compliance.

Recommendations

1. We recommend that the Business Resource Center Board act as the overall advisory board to business programs throughout the state and work closely with the GOED Board of Business and Economic Development.
2. We recommend that GOED revisit their contract with UDA to determine the appropriate contracted amount based upon clear requirements of oversight and value added to the state by UDA's board.
3. We recommend that GOED be more contractually involved with the oversight of UDA concerning conflict of interest.

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Agency Response

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Governor's Office of Economic Development

State of Utah

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Executive Director

June 30, 2010

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

RE: Draft Report Number 2010-09 July 2010 – A Limited Review of State-Funded Business Programs and Initiatives

Dear Mr. Schaff:

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

We have appreciated the professionalism and courteousness of the auditors, as well as the opportunity to review with them the state-funded business programs and initiatives with which GOED is involved.

We are pleased that the audit confirms there is no overlap or duplication amongst the various state-funded business service providers. Our team has continually worked hard to ensure this is the case and that the services offered are the most effective for the businesses seeking assistance, ultimately aiding in their success and growth.

The recommendations made by the auditors were appreciated and appropriate. With respect to recommendation number one, GOED has worked to ensure that business programs are coordinating their service delivery efforts, and we welcome the recommendation to consider expanding the responsibilities of the Business Resource Centers Advisory Board as an over-arching advisory board across the various business service providers and that the board work closely with the GOED Board of Business and Economic Development.

In response to recommendations two and three, GOED is in full support and has already implemented changes to address the concerns mentioned in the report.

Finally, we found the audit to be very beneficial and we will continue to identify best practices to ensure the most effective delivery of state-funded business services for the betterment of businesses across the State.

Sincerely,

Spencer P. Eccles
Executive Director

