

LEGISLATIVE AUDIT DIVISION

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To: Legislative Audit Committee Members
Cc: Bruce Nelson, Chief of Staff, Office of the Governor
Evan Barrett, Chief Business Officer, Governor's Office of Economic Development
From: Angie Grove, Deputy Legislative Auditor, Performance Audits
Date: November 20, 2007
Re: Performance Audit Follow-up: Governor's Office of Economic Development, Office of the Governor (original 04P-01)

INTRODUCTION

In December 2004 we presented our performance audit of the Governor's Office of Economic Opportunity (now the Governor's Office of Economic Development or GOED). The audit made five recommendations to the legislature and one recommendation to GOED. In September of 2006, we began gathering information from the Governor's Office and other sources on progress in implementing the recommendations. Audit follow-up work also takes into account GOED budgetary or organizational changes resulting from the 2007 Legislative sessions. This memo summarizes the results of our follow-up work.

Overview

The original audit report contained five recommendations addressed to the Legislature and the Governor's Office. To date, two recommendation addressed to the Legislature have been partially implemented and one has been fully implemented. The remaining recommendations have not been implemented. While we continue to believe the recommendations should be implemented in their entirety, we also recognize there are other options for addressing the issues identified in the original audit report. We discuss these other options in the summary section of this memo.

BACKGROUND

The Governor's Office of Economic Development was established by the 2001 Legislature. GOED was established within the Governor's Office to provide executive-level policy planning and coordination functions relating to the state's economic development efforts. Statutes establishing GOED and outlining the structure and mission of the office are found in Title 2, chapter 15, part 2, MCA. Section 2-15-218, MCA, establishes the office and the position of Chief Business Officer (CBO). The CBO is the head of the office and is appointed by the Governor. This section also establishes five "policy and program specialties" assigned to the office: business retention and recruitment, workforce development, technology development, infrastructure improvement, and permitting and regulatory processes. GOED is authorized to employ or

contract with policy specialists to perform these functions. Section 2-15-219, MCA, outlines the following duties for the CBO:

- ▶ Advise the governor on policy issues related to economic development.
- ▶ Lead the state's business recruitment, retention, and expansion efforts.
- ▶ Coordinate development and distribution of a statewide economic development plan.
- ▶ Coordinate individual functions and programs within the office.
- ▶ Serve as the state's primary liaison between federal, state, and local agencies, tribal governments, and private sector organizations.

GOED has now been in operation for approximately six years. The office currently operates with an annual budget of around \$1.1 million and six FTE (in addition to the CBO position).

In 2003 the Legislature included language in House Bill (HB) 2 requesting the Legislative Audit Committee prioritize a performance audit of GOED. The HB 2 audit request included references to “the office’s benchmarks, the basis and accuracy of reported status indicators, statistics, and accomplishments, and the program’s effectiveness and outcomes.” The resulting performance audit report was issued in December 2004. The following sections summarize audit follow-up findings and the status of various audit recommendations.

FOLLOW-UP AUDIT FINDINGS

Recommendation #1

We recommend the Legislature determine the future direction of the state’s economic development functions by either:

- A. Eliminating the Governor’s Office of Economic Opportunity and transferring functions to another department; OR**
- B. Pursuing changes in the office’s role, structure and resources to promote long-term continuity.**

Implementation Status – Partially Implemented

The audit report’s first recommendation addressed the need for a decision on the part of the Legislature regarding the office’s future. The recommendation linked the continuing existence of GOED to necessary changes in the office’s role, structure and resources. The choice proposed to the Legislature was to eliminate the office and transfer the functions to another department, or to retain GOED, but pursue changes in how the office works. These changes were detailed in the four remaining recommendations contained in subsequent sections of the report.

During the transition period between the current and previous gubernatorial administrations, the Governor’s Office indicated their intended course of action was to maintain GOED functions. Having made the decision to maintain GOED within the Governor’s Office, the current administration also pursued several changes during the 2005 Legislative session affecting the scope of the office’s duties. These changes resulted in the full implementation of recommendation #3, which related to GOED marketing and business recruitment, and workforce development activities (discussed in the section below). Recommendation #5 (relating to the office’s funding and staffing), has been partially implemented. However, other necessary changes have not been addressed to date.

Our original audit findings showed comprehensive change would be necessary to promote continuity and stability in the state's economic development policy and planning functions. This can be achieved best through implementation of all the audit recommendations, rather than treating the necessary reforms selectively or in isolation from one another. While we continue to believe this to be the case, it has also become obvious that some of the changes proposed for GOED are not going to be achieved. In the summary section of this memo we discuss some options that may offer greater potential for strengthening GOED operations.

Recommendation #2

We recommend the Governor's Office of Economic Development develop formal procedures addressing periodic review and update of the statewide strategic economic development plan required under section 2-15-219 (3), MCA.

Implementation Status – Not Implemented

Under section 2-15-219 (3), MCA, the Chief Business Officer is required to coordinate the development and distribution of a statewide economic development plan. The original statewide economic development plan developed in accordance with this statutory directive was released by GOED towards the end of 2002. The original plan identified six policy initiatives providing strategic focus for GOED operations and also identified a comprehensive range of performance indicators for use in measuring progress and assessing the office's success in meeting goals and objectives. Our audit findings did not identify concerns with the original GOED strategic plan, but we did identify concerns with the office's ability to pursue strategic initiatives over the long-term and provide for stability and continuity in the process.

Recommendation #2 was intended to improve continuity and stability in the strategic planning process through development of a formal process for reviewing and updating the statutorily-required plan. Specifically, we recommended the office develop procedures addressing development of a plan update timetable, identification of major changes affecting policy initiatives, technical analysis of new policy issues, review of performance measurement benchmarks, obtaining input from the public, and reporting requirements.

Currently, it is unclear to what extent GOED has made the procedural changes necessary to implement this recommendation. As a result, we are unable to determine whether the office's work is being guided by coherent strategic planning, measurable goals and objectives, and reliable performance metrics. Relative to the audit findings, we would identify the following issues:

- ▶ **Plan update timetable** – we are now at the half-way point in the period covered by the original strategic plan, but no plan updates have been released. It is not clear whether GOED has developed or is following structured timeframes for reviewing and updating the statewide economic development plan.
- ▶ **Identifying changes in policy initiatives** – although GOED appears to be pursuing some of the policy initiatives established under the previous administration, it is unclear whether there have been any significant developments in these areas resulting from the work of GOED, or how the original initiatives fit with any newly developed policy priorities.
- ▶ **Technical analysis of new policy issues** – the current administration has identified several new policy initiatives relating to economic development, including energy development, infrastructure improvement and Indian economic development. It is unclear how these efforts have been incorporated within a structured strategic planning process. This would

involve establishing defined goals and objectives and associated performance measurement benchmarks.

- ▶ **Review of performance data** – tracking progress towards defined goals and objectives through use of performance measurement data is considered an integral part of strategic planning. It is currently unclear whether GOED is using the performance measurement benchmarks outlined in the original statewide economic development plan. As an example of how performance measurement can be used in tracking progress, we compiled data showing whether GOED is meeting goals and objectives based on the performance indicators used in the original plan. Updated performance metrics are included as an attachment to this memo. We compiled information for 13 performance metrics where there was access to recent data. This analysis shows GOED is currently meeting or likely to meet the targeted 2007 performance levels for five of the performance measurement standards. For most of the rest of the metrics, the office is making progress towards the targets. Having access to this kind of performance data helps both state agencies and the Legislature in making decisions regarding resource allocation, prioritization of different activities, and maximizing the efficient use of public funding.
- ▶ **Public input and reporting** – successful strategic initiatives are driven by good communication, including regular opportunities for public input and results-oriented reporting. Although GOED continues to demonstrate a commitment to interactions with a diverse range of different groups and forums, it is less clear whether the office has been successful in linking these efforts to defined strategic objectives. There has also been a disconnect between GOED reporting efforts and the office's strategic planning role. The GOED report to the 2007 Legislature was a creditable effort at performance reporting, but lacked critical linkages to defined strategic goals and objectives, and did not report performance data in a consistent and objective manner.

By implementing these changes in strategic planning procedures, we believe the economic development planning and policy functions provided through GOED will benefit from increased continuity and stability. This, in turn, should contribute to enhancing the office's credibility and boosting its overall effectiveness.

Recommendation #3

We recommend the Legislature clarify the programmatic role of the Governor's Office of Economic Opportunity by:

- A. Determining the need for an active statewide marketing and business recruitment effort and funding requirements for the program.**
- B. Reassigning responsibility for functions associated with the Primary Sector Business Workforce Training Act.**

Implementation Status – Implemented

Part A of this recommendation addressed the marketing and business recruitment functions assigned to GOED in statute. At the time of the original audit work, these functions were effectively suspended as the Legislature had withdrawn the necessary budgetary authority. Since that time, GOED has requested and received regular appropriations funding these functions and has implemented an active statewide marketing and business recruitment effort. For the 2007 biennium, the Legislature approved annual funding of \$300,000 for the marketing and business recruitment function. GOED requested increased funding of \$500,000 annually for these

activities for the 2009 biennium, but the Legislature opted to maintain funding at the previous levels and to continue funding the office through one-time-only appropriations.

Part B of the recommendation addressed GOED responsibility for functions associated with the Primary Sector Business Workforce Training Act. We recommended these functions be reassigned to another executive branch agency as they were inconsistent with the programmatic role established for the office. GOED concurred with this recommendation and the administration supported passage of House Bill 270 during the 2005 session. This bill transferred administration of the Primary Sector Workforce Training Act to the Department of Commerce.

Recommendation #4

We recommend the Legislature address improvements in oversight, guidance and operational direction for the Governor's Office of Economic Opportunity by:

- A. Revising the GOEO governance structure to include oversight functions conducted by an appointed commission.**
- B. Determining the membership terms and role of the commission.**

Implementation Status – Not Implemented

This recommendation addressed the need for improved oversight and guidance for GOED provided through an appointed commission. To date, no action, legislative or otherwise, has been taken to implement this recommendation. We would continue to emphasize that the underlying conditions addressed in the original audit have not changed. GOED continues to operate without the benefit of independent oversight and, importantly, without input from legislative leadership and other interested parties. Discussions with GOED staff indicate the office believes the involvement of a council or commission would be a bureaucratic obstacle to their work. In the summary section of this memo, we discuss methods for integrating some measure of oversight of GOED in existing advisory committee structures.

Recommendation #5

We recommend the Legislature revise the status of GOEO staff positions and stabilize the office's funding to reflect any changes in the office's role and governance structure.

Implementation Status – Partially Implemented

The final recommendation addressed changes in GOED funding and staffing. This recommendation has been partially implemented through stabilization in the funding available to the office. Although GOED still relies on appropriations through the state's General Fund, the office has been able to operate with a more stable expectation of funding for the activities it is assigned in statute. The other resource issue we identified in this recommendation related to the status of GOED staff. We recommended the Legislature address options for ensuring GOED operate with a permanent professional staff insulated from changes in administration and other political pressures. During the 2007 session, House Bill 619 was introduced to remove the exempt status currently assigned to GOED staff. This bill was tabled in the House State Administration Committee.

SUMMARY

We believe the lack of progress in implementing audit recommendations constitutes a continuing barrier to GOED operating with maximum effectiveness. However, this lack of progress also highlights continuing issues with the provision of strategic economic development planning and policy functions for the state. The original performance audit addressed a broad spectrum of changes in the way GOED operates, which were designed to promote the office's effectiveness and provide greater stability and continuity in its functions. While we believe this approach still represents the best long-term chance for success, we also recognize our responsibility to propose workable solutions to issues. Accordingly, we suggest GOED and the Legislature consider the following options regarding the implementation of audit recommendations:

- ▶ Defining timeframes for updating and reporting a statewide economic development plan to include both continuing and new policy initiatives.
- ▶ Continuing to develop and use the performance measurement approach outlined in the original statewide economic development plan as a means of guiding the work of GOED.
- ▶ Ensuring oversight, public input and reporting of results for GOED economic development functions is integrated in the assigned duties of the Governor's Economic Development Advisory Council or a similar group.

ATTACHMENT – Legislative Audit Division Analysis of Economic Development Performance Measurement Indicators

<u>Performance Metric</u>	<u>2001/2002 Baseline</u>	<u>2007 Target</u>	<u>Current Performance</u>	<u>Data Source</u>	<u>Performance to Target</u>	
Industry Cluster Organizations Formed (total)	0	7	6	GOED	Progress Being Made	
Montana Goods Exported (percentage/annual)	2.7 %	3.0 %	2.7 %	U.S. Census Bureau	No Progress	
Population with Bachelor’s Degree or Higher (percentage)	25.6 %	26.0%	27.4 %	U.S. Census Bureau	Meeting or Exceeding Target	
Population with Associates Degree (percentage)	5.1 %	6.5 %	8.1 %	U.S. Census Bureau	Meeting or Exceeding Target	
Small Business Innovation Research Awards (total/annual)	31	36	40	MT Department of Commerce	Meeting or Exceeding Target	
Patents Issued (total/annual)	146	154	121	U.S. Patent & Trademark Office	No Progress	
Venture Capital Investment (\$ millions/annual)	\$0	\$10	\$8.4	PricewaterhouseCoopers	Progress Being Made	
Business Climate – Small Business Survival Index (rank)	38th	32nd	30th	Small Business & Entrepreneurship Council	Meeting or Exceeding Target	
Marketing & Business Recruitment Resources (annual \$)	\$175,000	\$500,000	\$300,000	GOED	Progress Being Made	
GOED Attendance/Support of External Events (annual)	2	6	5	GOED	Progress Being Made	
Number of Visits to GOED Website (annual)	1,000	50,000	42,000	GOED	Progress Being Made	
Publications Promoting Montana as Business Location (annual)	2	10	6	GOED	Progress Being Made	
State Per Capita Income (rank)	46th	44th	43rd	U.S Bureau of Economic Analysis	Meeting or Exceeding Target	

Source: Compiled by the Legislative Audit Division from GOED and other data sources.