

AUDIT REPORT

Bill Bradbury, Secretary of State
John Lattimer, Director, Audits Division

Oregon Economic and Community Development Department: Evaluation of Performance Measurement Practices



Summary

PURPOSE

To address questions from members of the Legislative Assembly, the Department of Administrative Services asked the Audits Division to review performance measurement and reporting practices at the Oregon Economic and Community Development Department (department). The purpose of our review was to evaluate the reliability and validity of the department's performance measurement system.

RESULTS IN BRIEF

Our review showed that while the department has taken positive steps in developing a performance measurement system, some fundamental improvements are needed to ensure that reliable performance information is produced. The department recently conducted a review of its methods for evaluating its performance and identified some new performance measures. Our review found that further actions are needed to address weakness in the department's performance measurement system. Weaknesses include unclear objectives, weak performance measure design, a lack of comparisons, and unreliable data. More work is needed to ensure that the department's performance information is useful and reliable for decision-making and public accountability. We suggest ways for the Department to improve its performance reports, and provide a list of nationally-recognized measures for consideration.

RECOMMENDATIONS

The department can strengthen its performance measurement system and improve the quality and usefulness of its performance reports. We recommend that the department:

- Clarify its performance goals and expectations;
- Simplify the measurement process by selecting a limited set of the most useful performance measures that are clearly linked to the agency's mission, goals, and objectives;
- Strengthen procedures to collect and verify the accuracy of data;
- Obtain access to Employment Department unemployment insurance data to verify the employment impact of its programs; and
- Use performance measurement information for accountability reporting and program management.

AGENCY RESPONSE

The department generally agrees with the findings and recommendations in this report.

Introduction

The mission of the Oregon Economic and Community Development Department is to assist Oregon businesses and governments to create economic opportunities and build quality communities throughout Oregon.

The department provides a variety of technical and financial assistance programs under the direction of the Governor and the five-member Oregon Economic Development Commission.

In 1997, the Legislative Assembly directed that Oregon's economic development programs be redesigned to improve the State's ability to meet the needs of a changing economy, provide flexibility in funding state-wide and regional needs, and focus on funding economic and community development services for rural and distressed communities.

Responding to this new direction, the department reorganized its staff into five regional teams that provide technical assistance, strategic planning, infrastructure development, fi-

nancial counseling, and marketing assistance to Oregon businesses, counties and cities, and other entities. Specialty teams support regional teams with expertise in areas such as finance, business and industry, and international trade.

The department also revised its aims to:

- Support the state's rural and distressed communities;
- Focus efforts on Oregon companies, including small, minority and women-owned businesses;

- Promote flexible partnerships; and
- Encourage sustainable development and business practices.

The department also provides administrative support to the Tourism Commission, Arts Commission, and the Oregon Progress Board. The department's budget includes resources for the Oregon Film and Video Office.

In addition, the department staffed the Governor's Small Business Council, Internet Commission, and the Joint Boards Working Group on Higher Education and Economic Development in conjunction with the Chancellor's Office during the 1999-2001 biennium.

Background

Performance measurement is government's way of determining if it is providing quality services at a reasonable cost. A performance measurement system supplies legislative officials and the public with information on program service efforts and accomplishments. In addition, it provides managers with information to set policies, develop budgets, and adjust organizational efforts.

Performance objectives are derived from an agency's mission, goals, and objectives. Each objective should be measurable and provide a reliable indicator of progress toward achieving desired results.

The Governmental Accounting Standards Board (GASB) has published guidelines for structuring a performance measurement system. GASB suggests that a system include:

- Measures of service efforts (i.e. spending and staffing);
- Measures of service accomplishments (i.e. services provided and results); and

- Measures that relate efforts to accomplishments (i.e. cost per outcome).

Statutes Require Performance Reporting on Economic Development Activities

The Legislative Assembly has recognized the importance of performance measurement and reporting in the area of economic development. Since 1993, the department has been required by statute to report biennially to the Governor and the Legislative Assembly on the success of its economic development efforts.

While statutes establish basic content requirements for the department's biennial report, they leave department managers free to supplement their reporting with other performance measures as they deem appropriate. ORS 285A.050 stipulates 12 reporting requirements for the department, including:

- The impact of its programs on the number of jobs created and retained; and
- The impact of its programs on wage levels of Oregon workers, including increases in wage levels.

Audit Results

During the past two years, the department has worked to develop a new set of performance measures. Much has been accomplished, but more work is needed to increase the reliability and value of the department's performance information.

We believe that further actions are needed to address identified weaknesses in the department's performance measurement system. These weaknesses limit the value of reported information for accountability and decision making purposes. They include unclear objectives, weak performance measure design, a

lack of comparisons, and unreliable data.

The Department Needs to Clarify its Objectives and Identify a More Useful Set of Performance Measures

To fulfill a 1999 budget note, department managers, along with the Interim Task Force on Performance, reviewed the agency's methods for evaluating its performance. Task Force work sessions were held monthly over a six-month period. In June 2000, the Task Force released a report in which it identified a set of new measures for evaluating the department's performance. Even with these new measures, the department lacks a complete and coherent set of indicators for assessing its service efforts and accomplishments.

During the past several years, the department has produced several documents containing performance objectives. The department has given these objectives a variety of names including "key result areas," "goals," "objectives," "revised aims" and "special focus areas." These statements do not provide a clear basis for measuring performance because they: (1) are not always linked to the department's mission, (2) change from document to document, and (3) are too numerous to track effectively.

For example, the department's regional team work plan contains three "key result areas," ten "goals," 42 "objectives," and 54 "activities." This document, which the department identified as its strategic plan framework, contained no performance measures.

Likewise, the performance measurement Task Force report, mentioned above, identifies four broad objective categories, 14 subcategories, and 27 performance measures. While many of the identified meas-

ures may be appropriate, many are vague, as is their relationship to the department's mission and goals.

We believe the department's performance measurement difficulties stem, in part, from its inability to develop clear and consistent goals and objectives against which to measure progress.

To establish a useful performance measurement system, the department must clarify its priorities, identify measurable performance goals, and develop a limited number of measures that fairly reflect its service efforts and accomplishments. Such a clarification could be accomplished through a strategic planning process.

We recommend GASB's nationally-recognized performance measures for economic development agencies as a potential starting point. Appendix B relates GASB's performance measures for economic development agencies.

A Lack of Comparisons Limits the Usefulness of Performance Data

Staff identified the statutorily required "Biennial Report" as the department's primary vehicle for reporting on performance. While these reports include a broad range of information and description about department activities, they do not specifically identify performance measures, nor do they provide comparisons necessary for assessing the economy, efficiency, and effectiveness of the department's services.

For example, in the 1999-2000 biennial report, the department reported that it "assisted in creating and retaining 10,946 jobs in the 1997-99 biennium." The report provides no additional information about job creation during previous periods. To find a comparable number, an interested reader would need to find the previous biennial report in which the department reported

20,162 jobs in the 1995-97 biennium. This lack of readily available comparative information precludes policy makers the opportunity to ask about the reasons for change.

To provide a context for understanding performance information, the department should develop comparative data sources and reporting practices. GASB has suggested four basic comparisons that economic development organizations should use.

- Compare performance over time. GASB suggests that once an agency has a system for regularly reporting performance information, results should be tracked at least annually. To establish a meaningful pattern, annual results should be compared with the results from at least three previous years;
- Compare performance against results reported by other jurisdictions, particularly those that share similar characteristics;
- Compare performance against the department's own goals and objectives. Information about actual results should be compared with planned results; and
- Compare the performance results of firms that received departmental assistance with those that did not.

The Department's Data Collection and Reporting Practices Need Improvement

We tested the accuracy of the department's performance reports and found some information to be of questionable reliability. For example, the department has been reporting job creation and wage estimates as actual results. Statutes require the department to report on these important outcomes. However, the department currently lacks effective

procedures for determining actual wages or the number of jobs created as a result of departmental assistance.

We reviewed the department's performance reports along with their evidential support. To test the reliability of the supporting information, we selected a random sample of department project files for 25 firms that received departmental assistance.

We found that the department relies on job and wage estimates made by recipients of financial assistance as a basis for its job creation, retention, and wage reports. For instance, as part of its application process, the department asks potential fund recipients to estimate their future employment levels and associated wages resulting from departmental assistance. The department then uses these estimates as the basis for its reported job creation, retention, and wage level results. We question the department's use of these estimates in its performance reporting because they have not been accurately labeled as estimates.

We learned that the department periodically surveys some firms receiving assistance to corroborate job creation and wage level estimates and to assess the long-term impacts of its programs. While this is a potentially valid method for obtaining performance information, the department does not systematically use surveys for all of its programs. Further, even when the department obtains this survey data, it does not use it as a basis for performance reporting. During our file review, we found evidence of customer surveys for only 7 of the 25 projects we reviewed.

The department also requires participants in some of its programs to provide documentation at project close, and for sometime thereafter, as evidence that projected jobs and

wages have actually been created and retained. This is done only for recipients of program funds when job creation is a contractual condition of receiving funds. Such documentation is not a requirement for all programs or projects. None of the files we reviewed contained such follow-up documentation, including three project files in which job and wage level documentation was required.

As an additional test of data validity, we requested confidential unemployment insurance data from the state's Employment Department. For unemployment insurance purposes, employers report their monthly number of covered employees and total quarterly wages paid to the Employment Department. This data provided us with an alternative means to assess actual job creation and wage levels at the firms in our sample.

Appendix A, at the back of our report, summarizes the results of our testing. It shows that we were able to obtain unemployment insurance data for 19 out of 25 firms in our sample. We compared that data with the department's reports of jobs created, retained, and wage levels.

Our comparison yielded more questions about the reliability of job related measures in the department's performance reports. The unemployment insurance data that we obtained supported the department's job reports in only 3 out of 19 cases. In 16 out of 19 cases, unemployment insurance data showed fewer jobs in existence than were indicated by departmental reports.

For example, one firm receiving financial assistance of \$160,799 had no employees at the time of financial award. This firm estimated that it would create 38 new jobs. Unemployment insurance data showed that, 18 months later, the firm had created 15 jobs. Similarly, a firm

with 81 employees received a \$100,000 award and proposed to create 40 new jobs. After 12 months, however, total employment was 85, an increase of only four jobs.

We also found discrepancies related to the department's reported average wage levels. In one case, a firm receiving financial assistance pledged to create new jobs paying an average of \$37,500 per year. The department reported this estimate as actual wages for the firm; however, unemployment insurance data showed that average annual wages did not exceed \$31,209. In another case, a firm receiving financial assistance pledged to create jobs paying \$34,000 per year. The department reported this estimate as the firm's actual wage level; however, unemployment insurance data showed that, after 24 months, the firm's average annual wage level was \$25,107.

Department officials explained that some of the discrepancy between their job reports and unemployment insurance job data is due to the time needed to complete construction or ramp-up new businesses. It is important to note, however, that the department had already reported the job and wage data that we tested. The cases in which our tests detected a possible over-reporting of jobs and wage levels were incorporated into the agency's 1997-99 biennial report as actual wages and jobs created through departmental assistance.

Our comparison demonstrated that the department should be able to provide the Legislative Assembly and the public with better job creation and wage information if it develops stronger verification procedures, including the authority to access unemployment insurance data. That data could be used as one tool for verifying the department's performance data. We identified no statutes that currently provide the agency with this authority.

Recommendations

The department could advance its performance measurement system so as to improve the quality and usefulness of its performance reports. Specifically, we recommend that the department:

- Develop a more cohesive framework for performance measurement that includes clear and measurable performance goals and objectives;
- Simplify the measurement process by selecting a limited set of the most useful performance measures that are clearly linked to the agency's mission, goals, and objectives;
- Establish and follow internal control procedures for collecting performance data and verifying its accuracy;
- Obtain data necessary to more accurately show the wage and employment impacts of its programs;
- Obtain access to unemployment insurance data maintained by the Oregon Employment Department; and
- Use performance measurement information for accountability reporting and program management.

Agency Response: The Oregon Economic and Community Development Department generally agrees with the findings and recommendations in this report.

Objectives, Scope, and Methodology

The objective of this audit was to determine whether or not the Oregon Economic and Community Development Department has reported measures of program effectiveness,

efficiency, and economy that are valid and reliable.

To provide a basis for assessing the department's measures, we reviewed performance reporting guidelines suggested by the Governmental Accounting Standards Board. We also reviewed the history and chronology of requirements for performance reporting by the department, as contained in *Oregon*

Revised Statutes, administrative rules, and budget notes.

We interviewed department managers and staff to inquire about agency policies and procedures for collecting, verifying, and reporting performance data.

We obtained and reviewed departmental performance reports to determine how the agency has complied with statutory mandates for

performance reporting. We inquired about evidence the department relies on to support its performance reports and we tested this support for a limited number of measures on a sample basis.

We conducted our audit in accordance with generally accepted government audit standards.

Appendix A

Data Comparison: OECDD reported jobs and employees covered by unemployment insurance

Project number	Award date	Existing jobs at time of award	New jobs reported by OECDD	Retained jobs reported by OECDD	Total jobs expected (new, retained, existing)	UI covered employees after 6 months	UI covered employees after 12 months	UI covered employees after 18 months	UI covered employees after 24 months	Does UI data confirm OECDD's job reports?
1	9/15/1997	0	3	0	3	0	0	1	7	Yes
2	1/29/1998	0	38	0	38	3	6	15		No
3	5/14/1999	17	18	0	35	32				No
4	9/17/1997	5	54	60	60	6	5	5	6	No
5	12/5/1997	4	21	0	25	5	32	6	42	Yes
6	10/27/1997	1	4	0	5	1	2	2	3	No
7	4/22/1999	22	15		37	21				No
8	3/23/1998	302	132		434	284				No
9	11/23/1998	1	35		36	1	2			No
10	10/9/1998	81	40		121	71	85			No
11	9/17/1997	46		115	115	43	44	38	40	No
12	11/24/1998	21	15		36	20	18			No
13	9/1/1998	4,994	300		5,294	4,564	4,137			No
14	4/8/1999	3	10		13	14				Yes
15	11/13/1997	15	3		18	3	14			No
16	12/15/1998	20		18	18	2	0			No
17	8/13/1997	7	7		14	13	10	9	11	No
18	10/20/1998	2	5		7	2	2			No
19	12/4/1998	44	18		62	51	56			No

Source: Oregon Employment Department, ES 202 Covered Employment and Payroll Data (1997-1999), OECDD customer tracking system data.

Appendix B

GASB's Recommended Performance Measures for Economic Development Agencies

The following recommended performance measures are from a research report *Service Efforts and Accomplishments Reporting: Its Time Has Come, An Overview*, Governmental Accounting Standards Board, Norwalk, Connecticut, 1990. The recommended performance measures are illustrative. They are intended to serve as a starting point for use in the development of a comprehensive set of performance measures. These measures can be used for external reporting of an agency's operations and results.

Business Attraction/Marketing Programs

Indicator:	Rationale for Selecting Indicator:
Spending and staffing:	
Dollars spent on the program's activities (current and constant dollars)	Provide information on the resources available to the program
Number of staff-hours expended by the program	Provide information on the resources available to the program
Services provided:	
Number and percentage of business prospects identified that may be interested in locating	Measure of the program's outreach function
Number of businesses from target industries identified that are interested in locating	Identifies success with targeted industries
Number of contacts made with firms interested in locating	Measure of program follow-up
Number of firms that received assistance from the program (by type of assistance)	Provides indication of the number of actual program clients
Percentage of leverage (non-governmental) funds used to finance project	Estimate of amount of other funds leveraged by a project
Results:	
Intermediate-term results:	
Number of visits by interested businesses that received assistance	Measures important intermediate response by clients
Number and percent of responses to advertising or direct mail solicitation	Provides information on number of potentially interested businesses
Longer-term results:	
Number and percentage of firms that received assistance and located elsewhere	Indication of program failures
Number and percentage of firms receiving assistance that located in jurisdiction and that felt that assistance contributed to their location decision	Major performance indicator for the program; measures the contribution of services to the observed outcomes
Number of actual jobs created by assistance 12 months/24 months after their initial contact with the program (and comparison with projected number of jobs to be created)	Major stated goal of business attraction programs
Average wage of jobs created by locating firms that receive assistance	Partial measure of job "quality"
Dollars of capital investment made by locating firms receiving assistance 12 months/24 months after the announcement of their location decision	Provides an indication of the local economic impact of the firm location
Amount of added tax revenues relating to assisted firms that located in the jurisdiction	Government return on investment in the program
Percentage of clients rating the <i>timeliness</i> of each service they received as excellent, good, fair, or poor	Service quality indicator
Percentage of clients rating the <i>helpfulness</i> of each service they received as excellent, good, fair, or poor	Service quality indicator
Percentage of clients locating elsewhere for reasons over which agency had some influence	Indicates potential problems within the program or agency
Efficiency:	
Program expenditures per actual job created at 12 months/24 months after receiving assistance	Measures program costs for each job created
Program expenditures per estimated tax dollar generated by client firms	Compares program expenditures with direct return through taxes

Financial Assistance Programs

Indicator:	Rationale for Selecting Indicator:
Spending and staffing:	
Dollars spent on the program's activities (current and constant dollars)	Provide information on the resources available to the program
Number of staff-hours expended by the program	Provide information on the resources available to the program
Services provided:	
Number of technical assistance seminars/workshops conducted	Measure of program activities; easily collected
Number of applications reviewed	Workload output measure
Number and percentage of applications approved	Information on the proportion of applications that are approved
Average length of time for review of an application	Service quality indicator
Number of loans (or loan guarantees) made	Workload output measure
Dollar value of loans (or loan guarantees) made	Provides information on total expenditures resulting from loans
Average loan (or loan guarantees) size	Provide information on average size of a project
Number of on-site monitoring visits conducted	Measure of program follow-up and monitoring
Results:	
Intermediate-term results:	
Number of loan applications processed and decided upon	Workload outcome measure for the program; easily collected
Total and average attendance at seminars/workshops	Measures of the success of program outreach
Longer-term results:	
Number of jobs added by firm receiving loans 12 months/24 months after receipt of loan	Major outcome indicator for financial assistance program
Number of jobs retained by firms 12 months/24 months after receipt of loan	Major outcome for business in jeopardy of losing employees
Total and average amount of private capital leveraged by loans (or guarantees)	Leverage indicates the amount of capital the program was able to activate
Loan default rate (percent of loans made that are currently in default)	Offers information on the "riskiness" of loans made
Percentage of scheduled repayments made on time	Provides an indication of loans behind in payments, but not in default
Percentage of clients rating <i>information</i> on the program, including application instructions, as excellent, good, fair, or poor	Service quality indicator
Percentage of clients rating the <i>length of time</i> for processing of their application as appropriate	Service quality indicator
Percentage of clients rating the <i>knowledgeability of program staff</i> as excellent, good, fair, or poor	Service quality indicator
Percentage of clients reporting that they would have had to (a) forgo, (b) delay substantially, or (c) cut back significantly the size of their new operations if state financing assistance had not been provided	Measure of the program's contribution to the identified outcomes
Percentage of clients who, after receiving financial assistance, were able to secure additional financing without assistance from the program (i.e. were able to become more self-sufficient)	Provides a measure of self-sufficiency
Efficiency:	
Program expenditures per actual job added or retained by assisted firms	Major measure of the cost per job for program
Loan (guarantee) dollars per actual job added by assisted firms	Measure of the loan amount per job added

Export Programs

Indicator:	Rationale for Selecting Indicator:
Spending and staffing:	
Dollars spent on the program's activities	Provide information on the resources available to the program
Number of staff-hours expended by the program	Provide information on the resources available to the program
Services provided:	
Number of export workshops/seminars	Activity measure
Number of trade shows conducted	Activity measure
Number of catalog shows conducted	Activity measure
Number of counseling sessions conducted	Activity measure
Number of foreign trips made	Measure of activities in other countries
Number of different firms participating in trade shows	Counts of clients
Number of different firms participating in catalog shows	Counts of clients
Number of different firms participating counseling sessions	Counts of clients
Results:	
Intermediate-term results:	
Number and percentage of firms that increased their interest in exporting as a result of assistance	Measure of increased interest in exporting
Number of trade leads generated from trade shows	Provide information on possible future sales
Number of trade leads generated from catalog shows	Provide information on possible future sales
Number of trade leads generated from international trips	Provide information on possible future sales
Longer-term results:	
Number of client firms that began export trade activities (sales or production)	Measure of new export activity of clients
Number and percentage of clients that increased their export activity (sales, jobs, etc.)	Measure of increased export activities of clients
Dollar value of actual increased export sales from client firms	Major outcome measure for the program

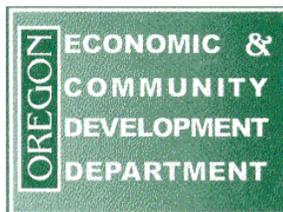
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AUDIT ADMINISTRATOR: *James D. Pitts* • AUDIT STAFF: *David Dean* • *Carrie Sanchez*

DEPUTY DIRECTOR: *Catherine E. Pollino, CGFM, MBA*

The courtesies and cooperation extended by the officials and staff of the Oregon Economic and Community Development Department were commendable and much appreciated.

Auditing to Protect the Public Interest and Improve Oregon Government



April 1, 2001

Mr. James D. Pitts, Audit Administrator
Audits Division
Secretary of State
State Capitol
Salem, OR 97310

Re: Draft audit report evaluating Oregon Economic and Community Development Department's performance measurement practices

Dear Mr. Pitts:

We appreciate the time and effort of the Audits Division in its review of the reliability and validity of the Department's performance measurement system. The Department is in the process of implementing a major overhaul of our performance measures and aligning our plans and objectives with our new measures, so the timing of the audit report is very useful. We agree with and will implement most of the recommendations. We agree with many aspects of the findings, although in some cases our interpretation differs from that of the audit report.

We believe the most important finding in the audit report points out that, in some of its communications, the Department has failed to make clear that numbers reported for job creation represent estimates, made by employers at the time of Department assistance, of jobs to be created in the future (the period of time varies, usually 1-3 years). This failure can then cause confusion as to whether companies have, in fact, created as many jobs as they have estimated. The Department agrees with the audit report, and will take care to clarify our reports, and also will implement the recommendation that a significant sample of cases be surveyed systematically across all programs and, in the case of job and wage information, verified against Employment Department records to ensure that reported estimates fairly represent the ultimate outcome. However, after examining the files reviewed by the auditors, we believe the discrepancy between jobs reported to the Employment Department and the Department's published estimates of job creation is fully explained by the time lag between the time a company received assistance and the passage of the period during which job creation was estimated.

The Department also agrees that we have not finished aligning our overall strategic and operating planning with our new performance measures, and will make sure this is completed in time for a fully coherent framework to be in place in the 2001-03 biennium. The Department agrees that the large number of performance measures makes it somewhat cumbersome to report performance with a clear focus. Our interim task force on performance measurement discussed



Mr. James D. Pitts
April 11, 2001
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this challenge at length, and concluded that a smaller set of measures would leave gaps in the Department's responsibility to report on the full range of its services and statutory mandates. We will work to design reports that highlight the measures most critical to our mission.

The Department is in the process of addressing the other issues raised in the audit report, and will make use of the additional perspective provided therein.

Sincerely,

A handwritten signature in black ink, appearing to read "W. C. Scott". The signature is fluid and cursive, with a long horizontal stroke at the end.

William C. Scott
Director

cc: Mike Greenfield