



Report of the Vermont State Auditor

September 14, 2009

DEPARTMENT OF
ECONOMIC
DEVELOPMENT AND
VERMONT
ECONOMIC
PROGRESS COUNCIL

Enhancements to Performance
Measurement Systems Could Be
Made

Thomas M. Salmon
Vermont State Auditor
Rpt. No. 09-05

Mission Statement

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**THOMAS M. SALMON
STATE AUDITOR**



**STATE OF VERMONT
OFFICE OF THE STATE AUDITOR**

September 14, 2009

The Honorable Shapleigh Smith
Speaker of the House of Representatives

The Honorable Peter D. Shumlin
President Pro Tempore of the Senate

The Honorable James Douglas
Governor

Mr. Kevin Dorn
Secretary, Agency of Commerce & Community Development

Ms. Karen Marshall
Chair, Vermont Economic Progress Council

Dear Colleagues,

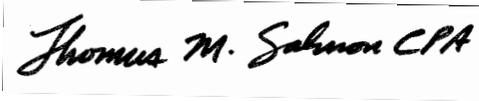
Governmental organizations at the federal, state, and local levels have found that a commitment to fact-based measurement of performance can have significant benefits. Moreover, in this era of difficult budget choices it is imperative that decision-makers be provided with performance measurement information to help guide these choices. Performance information, such as goals, measures, and related actual results, can provide critical insight into whether specific programs or activities merit additional funding, deserve less funding, or should have their actions redirected along more fruitful lines.

This report evaluates the performance measurement systems utilized by the Department of Economic Development (DED) and the Vermont Economic Progress Council (VEPC). In general, while DED and VEPC have taken important steps in implementing performance measurement systems, the systems are not yet mature. We are making a series of recommendations that, if implemented, could improve DED's and VEPC's performance measurement system which, in turn, should provide a realistic and multi-faceted picture of the Department's and Council's performances.

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I would like to thank the management and staff of DED and VEPC for their cooperation and professionalism. If you would like to discuss any of the issues raised by this audit, I can be reached at (802) 828-2281 or at auditor@state.vt.us.

Sincerely,

A handwritten signature in black ink that reads "Thomas M. Salmon CPA". The signature is written in a cursive style and is enclosed within a thin black rectangular border.

Thomas M. Salmon, CPA
State Auditor

cc: Fred Kenney, Executive Director, Vermont Economic Progress Council
James Saudade, Deputy Secretary, Department of Economic Development
William Noyes, Deputy Commissioner, Department of Economic Development

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Abbreviations

ACCD	Agency of Commerce and Community Development
CDFA	Council of the Development Finance Agencies
CFED	Commission on the Future of Economic Development
DED	Department of Economic Development
ERT	Economic Response Team
RDC	Regional Development Corporation
TIF	Tax Increment Financing
VEGI	Vermont Employment Growth Incentive
VEPC	Vermont Economic Progress Council
V.S.A.	Vermont Statutes Annotated
VTP	Vermont Training Program

Introduction

Some federal agencies, states, and local communities have demonstrated a deep-seated commitment to effective government performance measurement. These governmental organizations have found that a commitment to fact-based measurement of performance can have significant benefits. For example,

- Some Federal organizations have used performance information to identify problems in programs and take corrective action, prioritize and allocate resources, and share more effective processes and approaches.¹ For example, the National Highway Traffic Safety Administration used performance information to identify, develop, and share effective programs and strategies to increase safety belt usage. This contributed to an increase in seat belt usage nationally from 11 percent in 1985 to 80 percent in 2004.
- According to a recent report, Indiana, Maryland, Utah, and Virginia, which are performance measurement leaders, used performance data to help deal with budget difficulties resulting from the recent economic downturn.² These states used their performance measurement systems to reduce budgets by identifying and discontinuing underperforming programs as well as to redirect at least some of these savings to programs that showed more progress and promise.
- The use of a performance measurement system in Baltimore reportedly resulted in (1) the reduction and control of the city's use of overtime, (2) the reduction in absenteeism and accident time utilization, (3) the termination of costly initiatives that were inconsistent with mayoral priorities, (4) increased access by citizens to government performance data, and (5) improved intergovernmental and intra-governmental cooperation.³

¹*Managing for Results: Enhancing Agency Use of Performance Information for Management Decision Making* (U.S. Government Accountability Office, GAO-05-927, September 9, 2005).

²*Trade-off Time: How Four States Continue to Deliver* (The Pew Center on the States, February 2009).

³*The Baltimore CitiStat Program: Performance and Accountability* (IBM Endowment for The Business of Government, May 2003).

Given the benefits that can accrue from the effective use of performance measurement, our office has undertaken a series of audits focusing on this subject. As part of this effort, this report addresses performance measurement at the Department of Economic Development (DED) which provides support for businesses and job creation by assisting with finance, permitting, foreign trade, export finance, training, business recruitment/expansion, government marketing, and captive insurance sales and marketing services. We have also included in this report an evaluation of the performance measurement system of the Vermont Economic Progress Council (VEPC) which is an arm of DED but operates under the direction of a separate board.

Our audit objectives were to (1) evaluate whether DED and VEPC have goals and measures that gauge the effectiveness and efficiency of their major programs and operations, (2) ascertain the extent to which DED and VEPC track actual results against performance targets and validate the reliability of such data, and (3) determine whether DED and VEPC are reporting performance measurement data to the Legislature for each of their goals. To perform this audit, we evaluated DED's and VEPC's performance measurement system against 21 practices that we developed using a wide variety of federal, state, and private sector sources. Using these practices, we reviewed DED's and VEPC's most recent performance reports, which are:

- FY 2010 budget request document
- Vermont Training Program annual report
- Vermont Employment Growth Incentive (VEGI) report

-
- Tax Increment Financing (TIF) report⁴

We also interviewed key management staff and reviewed relevant supporting documentation. See Appendix I for more detail on our scope and methodology.

⁴Tax Increment Financing is a tool used by local governments to promote economic development and redevelopment. Four TIF districts exist in Vermont but only the Milton TIF district reports results to VEPC, which reports results to the Legislature pursuant to 32 V.S.A §5404a(i). Since the Milton TIF District was initially approved under statute in place prior to existing law, reporting for this program has been specifically what was set forth in the prior statute. New municipal applications to the TIF program will be reporting results to VEPC under guidelines currently being developed by the Council. Our report assessed the performance measures on the report generated under the old program since no new TIF districts had been approved under the new guidelines.

Highlights: Report of the Vermont State Auditor

Department of Economic Development and Vermont Economic Progress Council: Enhancements to Performance Measurement Systems Could Be Made

September 14, 2009, Report 09-05

Why We Did This Audit

Performance measurement has been used by other governments to more effectively manage their operations. To assess whether DED and VEPC have performance measurement systems that could be used in this manner, we evaluated whether the Department and Council have goals and measures that gauge the effectiveness and efficiency of their major programs and operations, ascertained the extent to which DED and VEPC track actual results against performance targets and validates the reliability of such data, and determined whether DED and VEPC is reporting performance measurement data to the Legislature for each of their goals.

What We Recommend

We provided a variety of recommendations to improve DED's and VEPC's performance measurement system. In particular, we recommended that both DED and VEPC develop strategic plans for their internal programs; develop a better mix of measures and targets; and document and validate the sources and methods for calculating actual results. Moreover, we recommend that more complete information be reported to the Legislature by DED which includes comparisons to targets and prior year actual results.

Findings

Although DED and VEPC had each established a set of goals and measures, neither had a documented strategic plan which would have provided a roadmap for the organizations to determine how their programs and operations met their goals efficiently and effectively. Without this roadmap, DED lacked clear alignment between one of its major programs, grants to Regional Development Corporations (RDC), and its goals. The types of measures used by DED and VEPC to gauge the effectiveness and efficiency of the programs could be enhanced to provide more usefulness to the organizations. DED's measures were predominantly of one type – output – which demonstrate the level of activity in a program but do not indicate whether the program is effective or efficient. For instance, “increasing available job opportunities” is a repeated element of the Department's goals yet none of the measures for any of the Department's programs include this important outcome. VEPC had measures for their two programs that were mostly outcome-based measures but was missing measures relating to the efficient use of resources.

DED and VEPC generally tracked actual results related to their respective measures but numerical targets were established for only half of DED measures and some of VEPC's measures. Targets are used to help evaluate the results of programs. Since both organizations compared actual results to targets for some but not all of their measures the results provided incomplete data against which to assess the programs' effectiveness. Both DED and VEPC had documentation for actual results in all cases tested. However, at DED three of the four results selected for testing revealed data and mathematical errors, or involved the use of estimates rather than actual results. For example, results from the Vermont Training Program, which is one of DED's major programs, included estimates rather than actual results and had mathematical errors. DED did not have a process in place to validate performance results. With a process, such errors may have been found and corrected.

In its most recent performance reports, DED and VEPC included some, but not all, critical information that would provide the Legislature with a complete set of performance information with which to assess DED's and VEPC's accomplishments. DED reported goals at both the department and program levels and identified strategies for achieving the program goals and measures to assess progress. However, the Department did not explicitly link its goals, measures and results in the report nor did the reports compare actual results to targets thereby making it difficult for the Legislature to effectively assess progress. VEPC did not include program goals or strategies to meet those goals in its legislative reports thereby inhibiting the Legislature's ability to assess the program's progress. Narrative was not presented on one of VEPC reports but another presented narrative explanations with important explanatory disclosures including relevant data limitations.

Background

For about 15 years, State government organizations have been required to annually submit a variety of performance measurement information to the General Assembly. However, these requirements did not include definitions of the various terms commonly used in a performance measurement system. Accordingly, in order to evaluate and report on State organizations' performance measurement systems on a consistent basis, we adopted performance measurement definitions used by others and applied them to DED and VEPC's performance measurement systems.

In accordance with the State statute, in January 2009 DED provided the Legislature with performance measurement data, including the missions of its major programs and operations. This report also included a description of VEPC, whose budget is included in that of DED.

Vermont Performance Measurement Requirements

In June 1994, Act 210 established 32 V.S.A. 307(c), which requires that State agencies, departments, and offices submit certain performance information to the General Assembly annually. In particular, these entities are required to submit with their budgets:

- a statement of mission and goals;
- a description of indicators used to measure output and outcome; and
- a description of the means and strategies for meeting the needs of the agency or program, including future needs and the achievement of the goals under which it provides services.

In support of this statute, in its instructions for the development and submission of the fiscal year 2010 budgets, the Department of Finance and Management required organizations to submit to the Appropriation Committees (1) mission statements, including goals, (2) indicators chosen to measure results, impacts, and outcomes, and (3) quantified data on the extent to which results, impacts, and outcomes are being achieved.

Other initiatives provide evidence of a desire by the Legislators to develop performance measurement systems specific to economic development. For instance,

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- 10 V.S.A. §2(c)(3) stipulates that the Unified Economic Development Report produced by the Department of Finance and Management in collaboration with DED is to include performance measurements, including estimated jobs created, increases or decreases in payroll including benefits, and other measures of economic advancement, with clear descriptions of data sources and methodologies.
 - The Legislature established the Commission on the Future of Economic Development (CFED) in 2006 to develop a strategic economic development plan for the State.⁵
 - CFED has generated four principal, interrelated goals for economic development in the State which were adopted by the Vermont Recovery and Reinvestment Act of 2009.⁶ This legislation states “State economists have concluded that the goals cannot be adequately evaluated with a small set of simplistic benchmarks, but rather, must be evaluated through a wide range of indicators using statistical benchmarks accompanied by a narrative that is a contextual interpretation of the data by professionals. Ultimately, consistent monitoring of credible benchmarks will provide information on both the efficacy and cost-effectiveness of our public policies and strategies so that necessary adjustments can be made to continually improve Vermont’s economic prosperity.”

Performance Measurement Terminology

A key consideration in evaluating a performance measurement system is the use of uniform terminology to describe major components of such a system. Neither the State’s performance measurement statute nor the Department of Finance and Management’s related instructions include definitions of performance measurement terms. Moreover, our research did not discover a standard set of performance measurement terms that were commonly used.

We adopted the following definitions in order to evaluate State organizations’ performance measurement systems on a consistent basis. These terms were

⁵Originally, VEPC was the organization charged with the responsibility of creating a 10-year statewide economic development plan for Vermont and providing annual updates to the Governor and General Assembly. VEPCs most recent report was published in 2002. The responsibility for developing a long-term statewide strategic plan was statutorily transferred to the Commission on the Future of Economic Development on May 24, 2006 with the creation of CFED.

⁶Act 54 of the 2009 legislative session

largely adapted from the Urban Institutes' 2006 edition of *Performance Measurement: Getting Results* and, in those cases in which this document did not define a term, from the Government Finance Officers Association.⁷

- Goal (sometimes called objective). A statement of direction, purpose, or intent based on the needs of the community. A goal is a broad statement of what a program expects to achieve sometime in the future.
- Measure (sometimes called performance measure or performance indicator): A specific numerical measurement for each aspect of performance under consideration. There are various types of measures, including those related to output, intermediate outcome, outcome, and efficiency information. An output measure is the amount of products and services delivered (completed) during a reporting period, such as the number of smoking cessation programs held. Intermediate outcomes are expected to lead to a desired end, but are not ends in themselves. For example, the percentage of smokers who have completed a smoking cessation program could be an intermediate outcome. Outcomes are the desired results of the program, such as a reduction in the number or percentage of people smoking or a reduction in the number or percentage of smoking-related illnesses. Finally, efficiency measures the relationship between the amount of input (usually cost or employee time) and the amount of output or outcome of an activity or program, such as the cost per service delivered.
- Target (sometimes called benchmarks): A desired numerical value related to a measure.
- Strategic Planning. A disciplined effort to produce fundamental decisions and actions that shape and guide an organization's mission, goals, and objectives, and develop long-term strategies for organizational success; results in a strategic plan or blueprint stating the mission, goals, and objectives of an organization.

⁷The Government Finance Officers Association has a performance management research project, which developed a glossary of performance measurement terms (currently in draft form).

DED and VEPC Organizational Structure and Mission

DED is one of the four departments of the Agency of Commerce and Community Development (ACCD). VEPC operates under an appointed board. However, DED describes VEPC as an arm of its Department and VEPC's cost of operations are included within DED's budget. Collectively, the fiscal year 2009 budget for DED and VEPC programs was \$5,962,753. Additionally, VEPC is allowed to authorize up to \$10 million in incentives annually to eligible participants in its programs⁸.

In its most recent report to the Legislature to comply with 32 V.S.A. §307(c), DED described its mission; its major programs and operations; and the major programs and operations of VEPC⁹ as follows:

“To lead and coordinate statewide efforts to foster the growth of higher quality jobs and a strong diversified economy through supporting existing businesses and entrepreneurs while attracting new businesses to the state.”¹⁰

DED's major programs are as follows:

- *Administration.* In addition to overseeing the human, technical, and financial resources of the Department, DED administers \$1 million in grants to the Regional Development Corporations¹¹ (RDCs).
- *Business Support.* The program is designed to assist new or expanding companies to operate in Vermont through locating facilities, financing, entrepreneurship, and expediting permits by direct client interaction and partnership with the Regional Development Corporations.
- *Financial Services.* This program was created to promote and maintain Vermont's position as a top domicile in the United States for captive insurance providers, and to seek out new and diversified opportunities with financial services.

⁸In the VEGI program, provided that incentive-triggering targets are met, incentives are earned over 5 years and paid out over 9 years.

⁹While VEPC has a mission statement and goal, they were not included in the report.

¹⁰DED provided a list of 98 economic development partners with whom the Department works. Among them are other state agencies, departments and programs; educational institutions; Regional Development Corporations; and federal offices.

¹¹Vermont's 12 RDCs are responsible for aiding economic development in various regions of the state.

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- *Vermont Procurement Technical Assistance Center.* This program works to generate bid opportunities from federal, state, and local governments, and private sector organizations for Vermont service and manufacturing firms. It maintains a website that promotes Vermont business networking and provides informational resources as well as maintaining the state bid system, a searchable database of state, federal, municipal and private sector open and awarded contracts.
 - *Vermont Training Program.* Through this program, the State promotes industrial expansion and encourages the creation and retention of jobs in manufacturing, IT, health care, telecommunications, and environmental engineering/technology by providing training for new and existing businesses, thereby increasing the skills of Vermont workers, wages, and Vermonters' standard of living.
 - *Vermont Global Trade Partnership.* This program provides technical support and training to businesses, interfaces with various international trade components of the federal government, and supports international trade missions.

The major programs for VEPC are:

- *Vermont Employment Growth Incentive Program.* This program's purpose is the creation of new, qualifying payroll and jobs, and the generation of new qualifying capital investments by awarding cash incentives to program applicants approved by VEPC and who meet their projected growth in those areas.
- *Tax Increment Financing Program.* This program allows municipalities to retain equalization tax revenues to pay for improvements which will stimulate development or redevelopment within the designated tax increment financing district, provide for employment opportunities, improve or broaden the tax base, or enhance the general economic vitality of the municipality, the region, or the state.

DED and VEPC Could Benefit by Documenting Strategic Plans and Using More Varied Mix of Measures

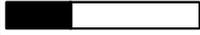
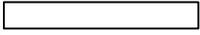
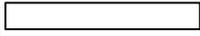
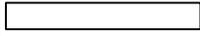
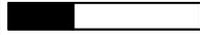
Both DED and VEPC have established goals and measures. However, these goals and measures were not developed within the context of an overarching strategic plan nor with a well-defined strategic planning process. Strategic plans and the processes used to derive them are important elements in performance measurement because they provide greater assurance that the goals and measures of an organization are well thought out, complete, and reflect the organizations' and their stakeholders' priorities. In addition, both DED and VEPC focused on certain types of measures and largely excluded other types of measures that could have provided a multi-faceted picture of the organizations' performances. For instance, the majority of the measures developed by DED were output measures which tell how much activity there is in a program, but provide little information about the extent to which DED is accomplishing its goals. VEPC's measures were primarily outcome measures which provided important information as to the effectiveness of its programs. Neither organization developed efficiency measures which provide information as to whether economy and efficiency are being utilized in the employment of available resources.

Table 1 provides a summary of our assessment of the extent to which DED and VEPC have implemented certain practices that we used to evaluate their goals and measures.¹²

Table 1: Summary of Practice Results Related to Goals and Measures

No.	Practice Description	DED		VEPC	
		Overall Assessment	Comment	Overall Assessment	Comment
1.1	The organization has established one or more goals that describes what it is trying to achieve.		DED has established goals that describe its purposes.		VEPC has adopted a goal related to its mission statement.

¹²Appendix 1 provides a description of how we chose these practices.

No.	Practice Description	DED		VEPC	
		Overall Assessment	Comment	Overall Assessment	Comment
1.2	The organization's goals and major programs and operations are aligned.		1 goal was not associated with any major program; 1 major program was not aligned with any goal.		Both of VEPC's major programs are aligned with its goal.
1.3	The organization's goals were developed through a strategic planning process that resulted in a written plan.		DED provided evidence of a strategic planning process but it did not result in a written strategic plan for the department.		VEPC had neither a strategic planning process nor a written strategic plan.
1.4	The organization's current goals are consistent with those in its strategic plan.		DED did not have a documented strategic plan.		VEPC did not have a documented strategic plan.
1.5	All goals have one or more relevant measures.		Four of the five department goals had relevant measures. One goal had no measures.		VEPC identified relevant measures related to its goal.
1.6	The organization has a mix of measures, such as outcome, intermediate outcome, output, and efficiency measures, that demonstrate progress towards intended results and the economic use of resources.		Most of the measures listed are output measures which tell how much activity there is in the program but provide little information about progress towards goals or efficient use of resources.		VEPC's measures were predominantly outcome. Including efficiency measures could provide a more useful mix.
1.7	The organization's measures are quantified or quantifiable.		75% of DED's measures were quantifiable; 25% were not quantifiable.		VEPC's measures were quantifiable.

-  Fully addressed—The practice was in place.
-  Largely addressed—The elements of the practice were in place more often than not.
-  Somewhat addressed—Less than half of the practice elements were in place or the elements were in place for less than half of the organization's programs or operations.
-  Not addressed—The practice was not in place.

A Formal Strategic Plan Could Benefit DED and VEPC

According to the Council of State Governments, taken together, strategic planning and performance measurement form a continuous process of governing for results.¹³ Strategic planning, including a resulting strategic plan is the starting point of an effective performance measurement system in that it forms the basis for the identification of the goals to be accomplished, strategies for meeting these goals, and measures for gauging the extent to which they have been achieved. Indeed, other states that are considered leaders in performance measurement link their strategic planning and performance measurement systems.

Neither DED nor VEPC had a documented strategic plan. DED management described conducting a strategic planning process, which resulted in the development of five department-level goals,¹⁴ but not a formalized strategic plan.

DED's management stated that the process of strategic planning is an ongoing evolution for the department and while it did not yield a documented strategic plan, the department recognized the need for a performance measurement system and took a program-centric approach to developing the system. According to the Deputy Secretary of ACCD, he began the process of developing a performance measurement system by looking at results of programs from an accountability perspective and worked to align the program results to the more overarching department goals. In conjunction with program managers, the Deputy Secretary developed a Goal Setting and Reporting worksheet, documenting program goals and performance measures and identifying accountable personnel. However, this worksheet did not show the link between the program goals and measures and the department's goals developed in the strategic planning process. At our request, DED senior management was able to demonstrate the alignment between program goals and measures and the Department's goals. In the analysis prepared for us, DED senior management failed to include the \$1 million Regional Development Corporation (RDC)¹⁵ grant program as a major program and determined that one of DED's goals was not connected to any of the

¹³The Book of the States (The Council of State Governments, 2003 Edition).

¹⁴See Appendix II for a list of DED's goals.

¹⁵The RDCs are Vermont non-profit corporations that provide economic development services in different geographic regions.

department's programs. In addition, the RDC program was not included in the Goal Setting and Reporting worksheet.

With regard to VEPC, it did not conduct a strategic planning process and did not document its strategy for achieving its single goal.¹⁶ The Executive Director of VEPC indicated that VEPC operates within the strategic operations of DED and ACCD, however, there was no evidence that the programs administered by VEPC were part of DED's strategic planning process.

A strategic plan is an important product of a strategic planning process because it provides an explicit link between the organization's mission, the goals that are an outgrowth of this mission, and discussions of how the organization intends to meet these goals. Multi-year strategic plans are required documents in states such as Texas, Virginia and Washington that are acknowledged performance leaders.

There is no single format that a strategic plan needs to take. Washington State directs its State organizations to develop strategic plans that communicate to internal and external customers and stakeholders the answers to the following questions:

- Where do we want to be?
- Where are we today?
- How do we close the gap?

Texas, Virginia and Washington, characterize their strategic plans as forward looking multi-year documents and had the following common elements in their plans (1) a mission, (2) goals, (3) measures and targets, and (4) strategies or action plans. Other elements that can be found in a strategic plan include descriptions of (1) external factors that influence an organization's performance and (2) available resources.

A direct and explicit relationship between the organization's strategic planning (and resulting strategic plan) and the development of its goals and measures provides greater assurance that adequate consideration has been given to internal and external interests and that there is agreement on their relevance and completeness.

¹⁶See Appendix II for VEPC's goal.

A More Complete Mix of Quantifiable Measures Would Better Demonstrate Achievement of Goals

Other states, the federal government, research organizations and other groups agree that to be effective it is critical for performance measurement systems to include quantifiable measures that are logically linked to goals and can be used to evaluate various aspects of execution and accomplishment. One of the challenges of performance measurement is developing measures that capture the direct impact of a program's activity. Some states use broad indicators of the economic climate that include the influence of outside factors while others, such as Washington, primarily measure activities and outcomes that the agency's efforts can influence directly.¹⁷

The goal statements for DED are based on broad economic development policy, yet DED's measures for these goals are mostly output measures, relating primarily to program products and services delivered. These measures give relatively little information as to whether DED is accomplishing its goals or efficiently using available resources. For instance, one of DED's goals is for "an improved standard of living and quality of life for all Vermonters through increased and improved available job opportunities." A Business Support program measure relating to this goal is to conduct 400 counseling sessions.¹⁸ This shows how much outreach activity there was in the program but does not measure the extent to which this outreach contributes towards improving standards of living or quality of life for Vermonters, nor does it tell how many job opportunities were created based on the contacts.

A mix of types of measures, including outcome and/or efficiency measures, would more clearly show the impact of the DED programs. Outcome measures show the changes in conditions that indicate progress toward a program's mission. For instance, "increasing available job opportunities" is a repeated element of the Department's goals yet none of the measures for any of the Department's programs include this important outcome.

VEPC's measures focus on outcomes, which are important measures that directly relate to a program's purpose. Efficiency, a measure important for the budget process, was not addressed by VEPC. Traditionally measured as

¹⁷State of Washington, Joint Legislative Audit and Review Committee, *Performance and Outcome Measure Review: Department of Community, Trade and Economic Development, Report # 04-2*. January 7, 2004

¹⁸A counseling session is a contact made with businesses through outreach programs.

the ratio of inputs to outputs, efficiency measures inform decision-makers of the trade-offs between costs and outcomes.

Further, approximately 25% of DED's measures are non-quantifiable. Examples include:

- Maintain and expand the partnership with the Vermont National Guard; the National Guard Association of Vermont and the National Guard Association of the United States which assists Vermont companies with procuring government contract opportunities.
- Promote the Vermont Brand in all marketing activity.

These types of statements seem to address processes rather than quantifiable measures of improvement or progress. Well-crafted multi-dimensional performance measures are critical elements of an effective performance measurement system. They enable the system to provide insightful information to decision makers in deciding, for example, whether programs are working as effectively as intended or whether corrective action needs to be taken.

Table 2 provides examples of the measures used by DED and VEPC and measures used by other organizations that have similar missions. We are providing this information for illustrative purposes only. DED and VEPC may not be able to adopt these measures or additional research may yield better alternatives, but the table illustrates other types of measures that may provide a more multifaceted picture of the Department's and VEPC's results.

Table 2: Comparison of DED and VEPC Measures with Other Organizations

Elements of Economic Development	Program	DED or VEPC Measures	Other Organizations' Measures
Business Retention and Expansion	Vermont Global Trade Program	Complete 300 market research and technical assistance projects annually.	<p>The State of Washington measures export sales by business clients of their programs.</p> <p>Oregon measures the export activity of businesses using the U.S. Census Bureau to measure final sales of local goods leaving the country.</p> <p>Washington measures the percent of new businesses that survive the first three years.</p>
	Vermont Training Program (VTP)	Increase VTP referrals by 20% through outreach programs in coordination with partners such as RDCs and others.	Utah's Small Business Development Centers have an internal process measure to develop stronger reputation and broaden their reach. Their measure for this is the percent of repeat or ongoing engagement clients to total unique clients.
Business Recruitment	Business Support	Administer an increased role in targeted market segments such as alumni, second home owners, state and national media, and foreign direct investors with a goal of increasing the available workforce for Vermont employers in critical demographic cohorts.	<p>The State of Virginia measures dollars invested and jobs created by new companies annually.</p> <p>A benchmark tracked by Oregon is its national rank in economic diversification.</p> <p>Utah Small Business Development Centers track the number of business starts.</p>
	Financial Services	Promote and support educational seminars throughout the U.S. to support recruitment and retention in Vermont.	Oregon measures its concentration of jobs in professional services relative to the U.S. concentration in professional services.
Workforce Development	Vermont Training Program	Maintain the existing 47 carry-over training contracts and implement 75 new company training contracts to serve 5,000 workers.	Washington measures the completion rate for worker training programs at community & technical colleges and private career schools.

Elements of Economic Development	Program	DED or VEPC Measures	Other Organizations' Measures
Employment Growth	Business Support	Earmark and target the recruitment of environmental engineering and technology firms, biotechnology, and financial service companies.	Texas measures the number of employees in targeted industry sectors. Virginia measures the number of jobs created by new and existing companies.
Community Development	TIF	<p>Increase in infrastructure.</p> <p>Annual tax increment.^a</p> <p>Revenues from increased property values.</p> <p>Real property development and/or redevelopment occurs.</p> <p>Employment opportunities are created.</p> <p>General economic vitality is improved.</p> <p>Application dependent location and project criteria are met.</p>	<p>TIF measures should reflect the purposes and goals for which the TIF was created. The Council of the Development Finance Agencies (CDFA) recommends various measures based on objectives, as follows:</p> <p>Objective: Expansion of area tax base Measures: Increase in payroll taxes; Increase in sales or other taxes</p> <p>Objective: Creation of new jobs Measures: Increase in payroll</p> <p>Objective: Infrastructure investments Measures: Percent project completion Number of new housing units constructed</p> <p>Efficiency measures recommended by CDFA may include:</p> <ul style="list-style-type: none"> • TIF assistance as % of total costs • Ratio of public (TIF) to private investment • TIF assistance per Full-time Equivalent job created and/or retained

^aThe first two measures are in current reports for the TIF program. VEPC has created 5 additional measures, listed following the first 2 measures, which are to be used in future reports when new participants enter the program. The additional measures are listed here in an effort to show how enhancements to the performance measurement system for the TIF program are under way.

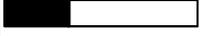
Usefulness of Performance Measurement System Could Be Enhanced With Targets and More Reliable Data

DED tracked actual results related to about 70% of its measures, but generally did not compare results to targets, nor did it have processes in place to ensure the reliability of the reported fiscal year 2008 performance data. Specifically, DED did not require that the sources and methods used to develop actual results be documented and validated.

VEPC’s use of targets and tracking of actual results was mixed. Specifically, its system of setting targets and tracking actual results related to the measures for the VEGI program was much more developed than for the current TIF program.¹⁹ The sources and methods of collecting data were well documented. In addition, although actual results were not validated by VEPC in either of its programs, it relied on the validation performed by the Vermont Department of Taxes, as required by statute²⁰.

Table 3 provides a summary of our assessment of the extent to which DED and VEPC have implemented the practices that we used to evaluate their use of targets and actual results.²¹

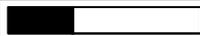
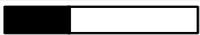
Table 3: Summary of Practice Results Related to Targets and Actual Results

No.	Practice Description	DED		VEPC	
		Overall Assessment	Comment	Overall Assessment	Comment
2.1	Suitable numerical targets are established for every measure at least annually.		16 of the 32 measures contained targets.		Targets were set for most of the measures
2.2	The organization tracks actual results for each measure.		Results were tracked for 70% (21) measures.		Results were tracked for most of the measures.
2.3	The organization compares actual results to targets on at least an annual basis.		Only 2 of the major programs provided evidence that the results are compared to targets at least annually.		Actual results were compared to targets for all 3 of the measures relating to the VEGI program but not for the TIF program.

¹⁹Commencing June 6, 2008, municipalities with an active TIF district are required to report results to VEPC pursuant to 24 V.S.A. §1901. New municipal applications to the TIF program will be reporting results to VEPC under guidelines currently being developed by the Council. Our report assessed the performance measures as reported prior to 24 V.S.A. §1901 since the only TIF approved subsequent to the change in statute was just recently approved and the new report format under development by VEPC has not yet been used.

²⁰32 V.S.A. 5930b(c)

²¹Appendix I provides a description of how we chose these practices.

No.	Practice Description	DED		VEPC	
		Overall Assessment	Comment	Overall Assessment	Comment
2.4	The organization has identified the methods and sources for the collection of actual results, including relevant limitations.		DED did not require that the sources and methods for the collection of actual results be documented. One program had a documented procedure.		Sources and methods for collection of data was documented and identified for all of the measures.
2.5	The organization has documentation that supports its actual results.		Of 4 FY2008 results tested 1 had a minor data error; the others had mathematical errors or used estimates in lieu of available actual results.		VEPC had documentation to support its actual results for the measure tested.
2.6	The organization has processes to validate that actual performance results are accurate and reliable.		DED did not have processes in place to validate actual performance results for most of its programs.		Validation of actual results was done by another department of the State. A well-defined process existed for the VEGI program but not the TIF program. Self-reported data was relied upon for the TIF program and was not validated by VEPC.

-  Fully addressed—The practice was in place.
-  Largely addressed—The elements of the practice were in place more often than not.
-  Somewhat addressed—Less than half of the practice elements were in place or the elements were in place for less than half of the organization's programs or operations.
-  Not addressed—The practice was not in place.

Comparing Results To Established Targets Would Better Demonstrate Progress Toward Goals

According to the Urban Institute, comparing outcomes to benchmarks²² is a fundamental and essential element of performance measurement systems.²³ The use of targets to provide a comparison of actual to expected performance is required or recommended by other states, the federal government, and research organizations.

DED had targets for half its measures but only about 30% compared actual results to established targets and did not track results of measures.

Even when targets were established, we found inconsistencies between various DED documentation as to the actual targets established. For example:

- The Financial Services measure for increasing the number of captive insurance companies licensed in Vermont is 15 on the internal goal-setting chart and 20 on the 307(c) performance report. The program manager indicated that his annual target for this measure is 25.
- The annual report for the Vermont Training program and the goal-setting chart reflect 75 training contracts to implement, but this is different from the 90 contracts that the program director established as a target in the operating plan that he created for his program.

The Business Support manager explained that he did not establish a target for case management for the Economic Response Team (ERT)²⁴ because it was not appropriate to set a target for a number of businesses in distress. The measure reads:

"Provide case management services and referrals to businesses in need of assistance and facilitate delivery of state and other resources to businesses through the newly formed Economic Response Team and in coordination with public, private, and non-profit partners."

²²Our research found that some sources use the term benchmark in a narrow manner to indicate a comparison against an outside standard. The Urban Institute used the term more broadly to indicate an expected performance result which includes standards set by outside organizations, internally developed targets based upon historical activity, among others.

²³*Performance Measurement: Getting Results, 2nd Edition* (The Urban Institute, 2006).

²⁴The ERT was created to develop a coordinated fast response by state government and relevant partners to assist businesses in distress.

DED could have targeted a percentage of businesses requesting assistance that were actually assisted, or measure the number of businesses assisted which are still operating 1 or 2 years later. Moreover, the measure could have been written to evaluate the timeliness of response or the level of cooperative efforts among agencies involved with ERT. The measure could then include specific targets that would address the intent of the ERT or could be used to determine what issues arose in completing its purpose.

There was no policy statement in DED requiring the program managers to set targets according to a documented methodology for each measure and to compare them to actual results. Only the manager for one of the major programs (Procurement Technical Assistance Center) had a prescribed process for setting targets and comparing them to actual results. Two other program managers (Vermont Training Program and Financial Services) had a system for developing targets which involved discussions with related organizations but did not have a documented method for setting them. The remaining two major programs (Business Support and Vermont Global Trade Program) had no process for developing targets.

Regarding VEPC, it had annual targets for all of the measures in one of its two major programs, VEGI, but for only one measure for the TIF program. Results for each program were tracked, but VEPC did not compare results to targets for any of the TIF measures.

The targets established for the measures in VEPC's programs were set by the applicants based on criteria set in statute that allows them to qualify for either the VEGI or the TIF program. For the VEGI program this includes annual targets and comparison of actual results to targets, for example, the amount of capital equipment expenditures a participant expects to make.

However, only one measure has an annual amount set by the applicants to the TIF program. This is the amount of the tax increment²⁵ a participating municipality achieves during a year. The process requirements for the TIF program require that estimates of tax increments in each year be reported. Other annual information is not requested by VEPC, but rather is only the total activity expected over the life of the program, generally 20 years. According to the Executive Director of VEPC, the Council is responsible for

²⁵The TIF process splits tax revenue generated from properties within the TIF district into two components, 1) base revenue, which is the amount available before the TIF district is established and 2) incremental revenue. Simply put, a tax increment is the amount of new tax revenue earned by a municipality due to increases in property valuation in a TIF district.

tracking and reporting results for only one municipality, Milton, currently in the TIF program²⁶ as well as any other TIFs that may be approved in the future by the council's statutory authority. Act 184 of the 2005 legislative session directed VEPC, in conjunction with the Department of Taxes, to report certain items to the Legislature in regards to active TIF districts, including the tax increment.

TIF results were reported as statutorily mandated, including the tax increment realized; however, providing targets such as the amount of tax increment expected to be received in the upcoming year may be useful in assessing the program's progress.

Without a consistent process to develop targets to compare to actual results and without a requirement to compare actual results to targets, DED and VEPC lack a mechanism to track progress toward intended results.

Targets serve as a tool to clarify the level of success that DED & VEPC desire to achieve in the performance of a particular program. Comparing actual results to targets would enhance accountability and make it clear to the public what the organizations are trying to do and how they will be doing it. Lacking a good process for developing targets and tracking results against those targets limits the usefulness of measures as mechanisms to gauge the effectiveness and efficiency of the program's operations.

Reliability of Actual Results Would Be Improved by Validation Efforts

In order to successfully measure progress toward intended results, organizations need to build the capacity to gather and use performance information. Ultimately, the usefulness of this information depends on the degree of confidence that users have in the data. Such confidence can be gained when organizations (1) identify the methods and sources for the collection of actual results and (2) have processes to validate that actual performance results are accurate and reliable. For example, Texas and Utah require that state organizations develop measure definitions and calculation methodologies. In addition, at the federal level, the Government Performance and Results Act requires each agency to describe the means to be used to verify and validate measure values. The importance of such verification and validation is echoed by other organizations, such as the Governmental

²⁶Three other TIFs exist in Vermont but are not reporting results to VEPC. They were established prior to the requirement to report results to VEPC. New municipal applications to the TIF program will be reporting results to VEPC under guidelines currently being developed by the Council.

Accounting Standards Board, the Council on State Governments, and the Government Finance Officers Association²⁷.

In the case of DED, documentation of the methods used to calculate results was not available for the majority of the measures. DED’s program managers and directors provided the sources for collection of actual results and they were able to show how they arrived at all of the results we tested. However, DED did not require the methods and sources used for calculation performance results be documented nor that actual results be validated. Based on interviews with program staff we found that such documentation was not routinely available nor was validation of actual results routinely performed.

The importance of documentation of methodology and validation is demonstrated by the mathematical errors we found on the measures tested at DED. Of the four measures tested, we were able to recalculate the same result on only one of them. Another measure had only a minor mathematical error. Table 4 shows our test results:

Table 4: Explanation of Tests of Four DED Fiscal Year 2008 Actual Results

Actual Results Reported	Explanation
Conducted 650 on-site visits and counseling sessions (Business Support Program)	<p>The result reported was an estimate by the Business Support manager who cited the changing structure of the department at that time as a reason for not utilizing actual data. The use of the estimate was not disclosed on the FY 2010 budget document. Further, there is inconsistency in the process and methodology for adding contacts to the contact management database program used by the various program managers to track results, as follows:</p> <ul style="list-style-type: none"> • The source documentation provided by the Business Support manager as evidence of his program’s results included contacts made by all of DED’s program managers as well as contacts made by VEPC. The FY2010 budget document was not clear that the reported result was a combined effort rather than just those contacted by the Business Support program. • We found some contacts made by two program managers were not included on the database report. One of these two managers believed the database to be unreliable and tracked certain contacts separately. • A contact with a customer was listed on the database and included in the total number of contacts multiple times when more than one of the department’s personnel was involved in the same site visit.

²⁷*Reporting Performance Information: Suggested Criteria for Effective Communication* (Governmental Accounting Standards Board, August 2003), *The Book of States* (The Council of State Governments, 2003 Edition), and *An Elected Officials Guide to Performance Measurement*, (Government Finance Officers Association, 2000).

Actual Results Reported	Explanation
Licensed 16 new captives bringing in \$24 million in captive premium taxes annually. (Financial Services Program)	No error.
Responded to 604 trade assistance requests from 266 business market research and technical assistance projects (Vermont Global Trade Partnership Program)	There was a minor error in bringing forward totals from individual spreadsheets to a cumulative spreadsheet. The net difference is not significant.
Completed 81 training contracts in support of 4,926 Vermont workers, which resulted in an average post-training wage of \$15.95 (Vermont Training Program).	<p>To test these numbers we chose 4 of the 81 completed contracts listed in the Vermont Training Program’s annual report and recalculated the results. Our testing showed:</p> <ul style="list-style-type: none"> • The number of workers supported was correct for 50% of the contracts tested. The actual number was higher than reported. • The average post-training wage was not sufficiently supported in any of the contracts tested. • Results on two contracts had inadequate documentation to support the wage reported; • There was a minor mathematical difference on one contract; • One contract was the program manager’s estimate and did not support actual wages.

Errors such as those found in the DED programs can be avoided and data quality improved by the use of robust internal controls. In particular, various validation and verification techniques can be used to provide increased confidence in reported results, such as management review of methodologies, independent review of calculations or spreadsheet formulas, analytical review, comparison of results to other sources, or tests of the underlying detail.

With respect to VEPC, written documentation of the sources and methods used to calculate results was available. No errors were found in the measure tested for VEPC. All of VEPC’s results are based upon self-reported data, a data collection procedure where information is obtained directly from program recipients without validation. Participant-reported data in the VEGI program is validated by the Tax Department, pursuant to 32 V.S.A. 5930b(c)(3), which is charged with ensuring that program applicants have met their targets. According to VEPC’s Executive Director, the information from the municipalities participating in the TIF program was self-reported

and VEPC did not have a process in place to validate results for this program. The risk of using self-reported data is that decisions may be made based on information that is not accurate or complete. When it is not feasible to perform detail tests of source documentation, alternative procedures, such as comparing results to expectations and looking at trends, can be used to enhance the reliability of the data.

Usefulness of Reported Results in Performance Report to Legislature Could Be Enhanced

In its most recent performance reports, DED and VEPC included some, but not all, critical performance measurement information that would provide the Legislature with more complete analysis with which to evaluate whether the department and council are achieving their goals. In general, the reports included certain types of relevant information, such as the inclusion of strategies to meet goals on DED's 307(c) performance report, but omitted other critical information needed to understand reported results, such as a comparison of results to targets in DED's reports and in VEPC's reports program goals and strategies to meet those goals. Four reports to the Legislature were included in our assessment, as follows:

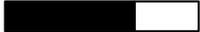
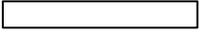
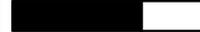
1. DED's FY 2010 Budget Recommendations which included a performance narrative submitted to the Legislature to comply with 32 V.S.A. §307(c), which requires that departments submit certain performance information to the General Assembly annually.
2. The annual report provided by the Vermont Training Program which is voluntarily provided to the Legislature in order to show program results that are specifically applicable to the funding received by DED for VTP.
3. VEPC's annual report for the VEGI program. The information provided therein is specifically cited in 32 V.S.A. §5930b(e)²⁸
4. VEPC's annual report for the TIF program. The information provided therein is specifically cited in 32 V.S.A. §5404a(i).²⁹

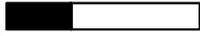
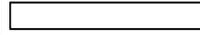
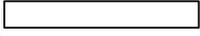
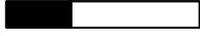
²⁸The Vermont Department of Taxes is jointly responsible with VEPC for the production and distribution of this report.

²⁹The Vermont Department of Taxes is jointly responsible with VEPC for the production and distribution of this report.

Table 5 summarizes our analysis of DED and VEPC’s performance reports submitted to the Legislature.

Table 5: Summary of Practice Results Related to Performance Reports to Legislature

No.	Practice Description	DED		VEPC	
		Overall Assessment	Comment	Overall Assessment	Comment
3.1	As part of performance report(s) to the Legislature, the organization includes one or more goals related to its major programs or operations.		Departmental goals as well as goals for all major programs are listed on the 307(c) performance report to the Legislature but not on the Vermont Training Program (VTP) report.		Goals are not included in the performance reports.
3.2	As part of performance report(s) to the Legislature, the organization includes a description of the strategies that it will be pursuing to meet its goals.		Strategies are listed in the 307(c) performance report for meeting the programmatic goals but not on the VTP report.		Strategies are not included in the performance reports.
3.3	As part of performance report(s) to the Legislature, the organization includes measures that are linked to reported goals.		Measures were listed for 4 of the 5 department goals although a direct link between goals and measures were not shown.		VEPC reports listed measures but did not identify goals.
3.4	As part of performance report(s) to the Legislature, the organization includes a variety of measure types, such as outcome, intermediate outcome, output, and efficiency measures.		Most of the 21 measures that were reported to the Legislature were output measures.		The measures listed were predominantly outcome measures. No efficiency measures were listed.

No.	Practice Description	DED		VEPC	
		Overall Assessment	Comment	Overall Assessment	Comment
3.5	The goals and measures reported to the Legislature are generally consistent from year to year.		Reporting was consistent from FY2009 to FY2010. No goals were listed on VTP's reports for either year.		This practice was not applicable to the VEGI program because the most recent report was the first report for the program. Measures on the TIF report were consistent with the prior years. No goals were listed on the reports.
3.6	As part of performance report(s) to the Legislature, the organization includes future targets for each reported measure.		Only 10 of the 21 measures on the FY2010 307(c) performance report contained future targets.		The VEGI report included future targets. The 2009 TIF report did not present future targets.
3.7	As part of performance report(s) to the Legislature, the organization includes a comparison of its prior years' numerical targets to its actual results for each reported measure.		No comparison was made to prior year's targets in the 307(c) performance report or on the Vermont Training Program report.		The VEGI report included comparative data but the TIF report did not.
3.8	As part of performance report(s) to the Legislature, the organization incorporates a narrative explanation of its results, including, when applicable, (1) an analysis of why a target was not met and corrective actions being taken and (2) relevant data limitations.		Narratives in the various reports, especially the 307(c) performance report, included what the programs do but did not include any reference to how the results compared to targets, data limitations or other explanatory disclosures.		The 2009 TIF annual report included footnote explanations that gave relevant information. The VEGI report did not include any narrative that might refer to how the results compared to targets or any relevant data limitations.

-  Fully addressed—The practice was in place.
-  Largely addressed—The elements of the practice were in place more often than not.
-  Somewhat addressed—Less than half of the practice elements were in place or the elements were in place for less than half of the organization's programs or operations.
-  Not addressed—The practice was not in place.

More Complete Information Could Add Important Context to Performance Reports

Each of the reports provided to the Legislature by DED and VEPC included some recommended elements but not all and not consistently among reports. The prior sections of this audit report discussed weaknesses in DED's and VEPC's measures, targets and actual results. These weaknesses reduce the various reports' usefulness to elected officials because it makes it difficult to judge whether the actual results reported are what should be expected based on resource levels or whether corrective actions are needed. Examples of these weaknesses include:

- DED's and VEPC's omission of certain types of measures provides limited information about the extent to which they are accomplishing their goals or using resources efficiently.
- DED measures that seemed to address processes rather than to quantify improvement or progress.
- Only about half of DED's measures contained targets and those with targets established did not present comparison of actual results to targets.

Since these limitations were discussed in prior sections, the focus of this section is on the extent to which DED and VEPC provided contextual information that explained their respective results.

DED's performance reports included narrative on what the programs did but lacked a clear link between Department's goals and measures; did not compare results to targets; and did not disclose data limitations such as reliance on self-reported data³⁰ or other disclosures which would address results or corrective actions, if needed.

VEPC did not include its goals and strategies in its performance reports nor was VEPC's performance measurement information reported as required by 32 V.S.A. 307(c). Data was reported on the TIF report as specified by statute but of the two results of measures reported by VEPC for the TIF program, one requires a calculation to determine the result of the measure. That is, the measure which states "Property tax base increases above original taxable value" is comprised of two elements, the Fiscal Year Property Value

³⁰Self-reported information may not be verified by the program managers yet has been pointed out as evidence of program success, such as the total number served in the Vermont Training Program or the amount of export sales reported by the Vermont Global Trade Partnership program.

Increment and the Original Taxable Property Value. The difference between the two numbers yields the actual result. Although the report contains both elements, it relies on the knowledge of the reader to calculate the difference.

Table 6 shows the inconsistencies and lack of completeness in reporting done by DED and VEPC on their respective reports.

Table 6: Elements of Reports

Recommended practice	DED		VEPC	
	307(c) Performance Report	VTP Report	VEGI Report	TIF Report
Includes goals and strategies for meeting the goals on the reports.	Yes, for all of DED's programs but not VEPC's. ^a	No	No	No
Showed how program measures linked to Department goals.	No. Showed link to program goals not department.	No	No	No
Includes comparison of results to targets and/or prior year results.	No	No	Yes	No
Provides narrative which gives context for actual results, both positive and negative, including data limitations.	No. Narrative provided did not include context for actual results.	No	No	Yes

^a VEPC's budget is included as part of DED's budget. Since the 307(c) performance report requirement is associated with the budget information, our expectation was to find the performance information for VEPC required by 32 V.S.A. 307(c) included as part of DED's report.

Although the narrative need not be excessive, explanatory information in the reports provides information important for legislators and other readers of the reports to interpret the data. It is an opportunity for the program directors to explain unexpected, undesired outcomes such as economic downturns, high unemployment rates, etc. Important issues, problems, successes, failures, and progress indicated by the data likely to be of concern should be identified. Management of DED and VEPC as well as program directors should include narratives in their reports which provide context for results, both positive and negative.

Conclusions

The performance measurement process at DED is well under way but could benefit from taking a more strategic approach to ensure that all major programs are incorporated into the measurement process and that a mix of measures are utilized to determine the extent to which the Department is achieving its goals. In addition, structured and disciplined processes related to the documentation of sources, methods, and validation of actual results would provide more confidence in the reliability of the actual data that is reported. Lastly, by providing comparative data to targets and prior year results, DED would greatly enhance the usability and usefulness of its performance report to the Legislature.

VEPC performance measurement process includes important elements that are useful in assessing whether it is achieving its goal. VEPC would benefit from implementing additional measures related to operational efficiency through a strategic planning process that results in a documented plan. VEPC could improve its reporting to the Legislature by identifying goals on the reports, showing a comparison of targets to actual results for TIF reporting, and including limited narrative when necessary on the VEGI report.

Recommendations

We recommend that the Commissioner of the Department of Economic Development:

1. Develop a written strategic plan based on the results of their internal planning process that clearly defines how the programs are to help the department achieve its objectives.
2. Develop a mix of measures; specifically outcome and efficiency measures, in order to better assess how the activities of the programs contribute to Department goals.
3. Define all measures in quantifiable form and establish numerical targets for all measures.
4. Track actual results for each measure and compare actual results to numerical targets on at least an annual basis.

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5. Require that all the sources and methods used to develop actual performance results be documented and that actual results be validated.
 6. Include in its performance reports to the Legislature (1) explicit links between department goals, measures, and targets, (2) comparisons of results to targets and, if applicable, corrective actions that are planned if targets were not met, and (3) data limitations, when applicable. Also, DED should compile the information related to explicit links between VEPC's goals, measures, and targets for inclusion in DED's report as required by 32 V.S.A. 307(c).

We recommend that the Vermont Economic Progress Council:

1. Develop a strategic plan that is specific to how its programs contribute to achievement of its goals.
2. Develop efficiency measures in order to gauge the efficient use of program resources.
3. Establish targets for the TIF measures and show how actual results compare to targets and/or to prior year results.
4. Define goals and strategies on its performance reports to the Legislature and include relevant narrative explanations when necessary such as when targets are not met or when data limitations exist.

Management's Response and Our Evaluation

The Department of Economic Development and the Vermont Economic Progress Council have each responded to a draft report. We have included the complete responses in Appendix III and Appendix IV, respectively. DED and VEPC indicated general agreement with the findings in the report, but articulated concern over development of strategic plans for their organizations in the absence of a statewide plan for economic development.

Both DED and VEPC stated that strategic planning for statewide economic development is the responsibility of CFED and that developing strategic plans for their organizations without CFED guidance would be disrespectful of the legislative intent in forming that commission. While we agree that

CFED is tasked with developing an overarching plan for economic development in Vermont,³¹ we recommended that DED and VEPC develop strategic plans for their organizations, not for economic development for the state as a whole. We recognize that there may be some overlap between the CFED strategic plan for economic development for the state as a whole and organization-specific plans developed by DED and VEPC. Accordingly, we agree that coordination among all of these plans is important. However, we disagree that DED and VEPC cannot begin or even complete a version of their strategic plans before CFED. A department level plan should be dynamic, revisited and updated with relatively frequent occurrence. DED's and VEPC's strategic plans could be revised to conform with CFED's overall strategy, once it is available. In addition, as ex-officio members of CFED, the Secretary of ACCD and the Executive Director of VEPC should be able to ensure that the strategic plans put in place for their organizations remain in line with the State's goals, even before CFED's final product is released. We believe that the proactive development of DED and VEPC organization-specific plans would not contradict or otherwise impinge on the intent of the Legislature with respect to the CFED government-wide strategic plan.

In their responses, DED did not indicate specific actions to address our recommendations; however, VEPC described processes it plans to follow in the report. In response to 3 of 4 recommendations, VEPC indicated its timeline for the implementation of actions to address our recommendations is dependent upon the timing of government-wide implementation of practices and measures to be developed by a working group recently formed by the Agency of Administration. VEPC and DED commented that they were participating in this working group. We think the formation of a working group and DED and VEPC's participation in it are laudable activities. However, we believe DED and VEPC should take more immediate action to manage their performance measurement process.

³¹The Commission on the Future of Economic Development (CFED) released its final report in April 2009 whereby four principal, interrelated goals for statewide economic development were presented. These goals were adopted in June, 2009 by the passage of Act 54. According to 10 V.S.A. §3(c) these "four principal goals shall be used to guide the design and implementation of each economic development program, policy, or initiative that is sponsored or financially supported by the state, its subdivisions, agencies, authorities, or private partners." These goals are the basis of a still-developing strategic plan in which DED and VEPC count among the myriad of economic development partners that plan will encompass. DED itself has identified 98 such partners.

In accordance with 32 V.S.A. §163, we are also providing copies of this report to the Secretary of the Agency of Administration, Commissioner of the Department of Finance and Management, and the Department of Libraries. In addition, the report will be made available at no charge on the State Auditor's web site, <http://auditor.vermont.gov/>.

Appendix I

Scope and Methodology

To address our objectives we reviewed the State's statutory requirement related to performance measurement [32 V.S.A. §307(c)] and the State's most recent guidance related to this statute. In addition, we identified and reviewed a wide variety of guidance and research related to performance measurement in governmental entities that was published by (1) the Federal government (i.e., the Government Accountability Office and the Office of Management and Budget), (2) States that are acknowledged leaders in performance measurement (e.g., Texas, Utah, Virginia, and Washington), and (3) research organizations and others who have studied performance measurement (e.g., the Government Accounting Standards Board, the Government Finance Officers Association, the Council of State Governments, the Urban Institute, the National Academy of Public Administration).

Using these sources we identified 21 practices that we used to evaluate performance measurement at DED and VEPC. These 21 practices are some of the elements of a well-rounded performance measurement system identified by these sources. We chose those practices that were related to our objectives, required by statute, cited by multiple sources as recommended elements of a performance measurement system, and were verifiable through documentation and interviews.

Using the 21 practices as the basis for our audit, we

- identified and reviewed pertinent statutes and Executive Orders outlining DED and VEPC's responsibilities.
- reviewed and assessed DED's most recent performance reports.
- reviewed other major DED performance documents, such as the Vermont Training Program report.
- reviewed VEPC's performance reports for the Vermont Employment Growth Incentive program and the Tax Increment Financing programs.
- interviewed the Deputy Secretary of ACCD, the Deputy Commissioner of DED, and the Directors of the major DED programs.
- interviewed the Executive Director of VEPC.

Appendix I

Scope and Methodology

- obtained and reviewed supporting documentation related to goals, measures, and actual results pertaining to DED and VEPC's major programs.

We also researched goals and measures used by other organizations in other states and the federal government with similar programs and missions.

After completing our analysis, we evaluated DED and VEPC against each of the practices using the following evaluation criteria:

- Fully addressed—The practice was in place.
- Largely addressed—The elements of the practice were in place more often than not.³²
- Somewhat addressed—Less than half of the practice elements were in place or the elements were in place for less than half of the organization's programs or operations.
- Not addressed—The practice was not in place.

We considered internal controls and information systems only to the limited extent to which they were related to our objectives. For example, we did not attempt to validate the actual performance results reported by DED and VEPC.

We conducted this performance audit in accordance with generally accepted government auditing standards except for the standard that requires that our system of quality control for performance audits undergo a peer review every three years.³³ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the

³²These categories include cases that (1) based on inquiry of organization officials, the practice appears to be in place, but supporting documentation was lacking or was in draft form or (2) the organization had documentation supporting that the practice was in place, but other evidence indicated that it had not been completely or consistently implemented. In such cases, the decision as to whether the organization had largely addressed or somewhat addressed a practice was based on the extent to which the elements of the practice had been adopted.

³³Because of fiscal considerations, we have opted to postpone the peer review of our performance audits until 2011.

Appendix I

Scope and Methodology

evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II

Goals for the VT Department of Economic Development and Vermont Economic Progress Council

Department of Economic Development Goals

1. An improved standard of living and quality of life for all Vermonters through increased and improved available job opportunities.
2. An increased number and diversity, including geographic diversity, of job opportunities available to Vermonters in order to cushion the economy from the impact of the potential closure of one or more large employers or the demise of a key industry.
3. A stronger economy that will support environmental protection, education, and cultural and social growth through strategic investments in programs.
4. A strengthened educational and technological infrastructure to compete in a knowledge-based economy. In the short term, put resources into a comprehensive retention campaign resulting in increased median incomes of working Vermonters.
5. Adapted strategies based upon information and forecasting of emerging economic trends looking three, five, ten years and beyond.

Vermont Economic Progress Council's Goal

1. Support the economy and citizens of the State of Vermont through the administration of state economic incentive programs that stimulate employment growth and infrastructure investments, and the growth of state revenues.

Appendix III

Department of Economic Development Response



State of Vermont
Agency of Commerce and Community Development
National Life Building, Drawer 20
Montpelier, VT 05620-0501
www.dca.state.vt.us

[phone] 802-828-3211
[fax] 802-828-3383

August 13, 2009

Mr. Thomas Salmon, State Auditor
Auditor of Accounts Office
132 State Street
Montpelier, VT 05633-5101

Dear Tom,

First, I want to thank you and your staff for your recent performance audit and report for VEPC programs and the Department of Economic Development now, the Department of Economic, Housing and Community Development. I am of a firm belief that we can always improve our performance by regularly revisiting our processes and strategies and by making corrective adjustments as may be required. Your staff exhibited professionalism and diligence in the course of their work and the final product will be useful for us going forward.

While we agree with many of the suggestions and recommendations included in the report, we want to reiterate that the Legislature clearly established that the Commission on the Future of Economic Development would have by now presented us with a Strategic Economic Development Plan that we could adopt rather than develop our own strategic plan. We believe that developing a strategic plan without CFED guidance would be disrespectful of the legislative intent for forming that Commission. Similarly, the legislature explicitly chose to remove the responsibility for strategic planning from VEPC and shift it to CFED further establishing their intent that CFED has the responsibility for economic development planning. The fact that CFED has yet to complete its work should not reflect in any way on the commitment of this agency to plan and to utilize performance measures.

I also believe that the 21 standards your office developed and the definitions inherently important to those standards are excellent tools for future strategic planning, goal setting, and performance evaluation. However, since they were only recently developed, they have not been available to anyone engaged in strategic planning efforts before now. We hope that the Agency of Administration will utilize the standards and definitions you have thoughtfully developed to make the Form 4 we currently utilize or a similar document, more meaningful and capable of serving many worthwhile purposes. I have asked Deputy Secretary, Jim Saudade to assist the recently formed committee established by the Agency of Administration to work toward developing such a document. This new document and the processes required to meet its objectives, should be able to bring a new level of strategic planning and performance evaluation to all agencies and departments of state government.

Again, I want to thank you and your staff for helping us toward achieving a higher level of service and efficiencies in our efforts improve the quality of life for all Vermonters.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin Dorn".

Kevin Dorn
Secretary
Agency of Commerce & Community Development



Appendix IV

Vermont Economic Progress Council Response



Vermont Economic Progress Council
Department of Economic Development
National Life Building – North, Drawer 20
Montpelier, VT 05620-0501
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*Agency of Commerce and
Community Development*

August 14, 2009

The Honorable Thomas Salmon
Auditor of Accounts
State of Vermont
132 State Street
Montpelier, Vermont 05633-5101

Dear Mr. Salmon:

First, we want to thank you and your staff for undertaking the recent performance audit of, and report on, programs administered in part by the Vermont Economic Progress Council. The Council firmly believes that we can always improve our performance by regularly revisiting strategies and processes and by making corrective adjustments as required. Your staff exhibited professionalism and diligence in the course of their work and the final product will be useful for strategic planning and performance measurement efforts going forward.

While we concur with the recommendations included in this report citing a need for strategic planning, we believe it important to make the distinction between the various levels of strategic planning processes that need to exist to support economic development within the State, and how those various planning processes are interrelated for the purpose of measuring performance, outcomes, effectiveness and efficiency. Ideally, there would exist a long range strategic plan for economic development in Vermont to which the strategic plans of the Department of Economic, Housing and Community Development, VEPC, and other economic development partners, would be aligned. That master plan and a set of measurable indicators have not existed since the last long range plan developed by VEPC in 2002. Through a long history, the development of such a plan has been reassigned, delayed, and is not complete. This plan needs to exist in order for coordination, effectiveness and efficiency across all the working arms of economic development in Vermont.

Vermont's economic development programs, for example VEGI, the Vermont Training Program, VEDA, SBDC, VMEC, etc., are tactical approaches to meet strategies expressed in a long range strategic plan, with performance measures that relate to achieving the overall strategic objectives and goals set forth in that plan. DED and VEPC strategic initiatives and performance outcomes cannot be substituted as the overall strategic economic development objectives for the State of Vermont. We believe that developing a strategic operational plan for VEPC operations prior to the existence of a fully developed long range strategic plan for economic development would be disrespectful of the legislative intent for forming the Commission on the Future of Economic Development (CFED) and the mandate for that body to generate a long range economic plan.



"Improving the economic vitality of Vermont and supporting a sustainable future for our citizens."

Appendix IV

Vermont Economic Progress Council Response

NOTE: The Auditor's participation in a working group to develop performance measurement guidance will not involve any decision making, supervisory, or responsibility for ongoing monitoring function for the group.

We wholly support a focused effort to complete a long range economic development plan, whether undertaken by DED, VEPC or CFED that will then guide the alignment of strategic plans, goals and objectives and the creation of performance measures for all economic development partners.

That said, we believe that the performance measurement standards your office developed are a clear framework for evaluating future planning and implementation processes. The definitions inherently important to those standards are excellent tools for future strategic planning, goal setting, and performance evaluation. We are fortunate to now have a base level framework for both planning and evaluation with which to go forward. However, since they were only recently developed, they have not been available to anyone engaged in strategic planning efforts or program reporting before now. The Council has authorized Executive Director Fred Kenney to participate in a recently formed working group established by the Agency of Administration to work with your office toward development of performance measurement guidance for State government. This new document and the processes required to meet its objectives, should bring a new level of strategic planning and performance evaluation to all agencies and departments of state government.

As requested by your July 23, 2009 letter, attached are specific comments on the draft audit recommendations, including timeframes for completion.

Again, we want to thank you and your staff for helping us toward achieving a higher level of service and efficiencies in our efforts improve the quality of life for all Vermonters.

Sincerely,



Karen Marshall
Chairperson
Vermont Economic Progress Council

Vermont Economic Progress Council Response

“Enhancement to Performance Measurement Systems Could be Made”

Vermont Economic Progress Council

Response to Draft Audit Report #09-05

VEPC Responses to Recommendations:

1. ***“Develop a strategic plan that is specific to how its programs contribute to achievement of its goals.”***

VEPC agrees that the development of a strategic plan for the Council would be helpful. However, since the Council's statutory mandate is to administer programs that carry out the community (TIF) and economic (VEGI) development goals of the State, such a strategic plan must align with the strategic goals of the Agency of Commerce and the Department of Economic, Housing, and Community Development and ultimately a long range economic development plan for the State. To ensure that our goals align with and are included in the Department's goals and strategy, an immediate specific step will be to develop a strategic plan for VEPC, and then include VEPC's strategic plan, goals and performance measures in the Department's 307(c) report. VEPC's process to develop a strategic plan and goals for the Council will be guided by the recent process started by the administration and auditor to develop performance measurement practices and measures for State government.

2. ***Develop efficiency measures in order to gauge the efficient use of program resources.***

VEPC is participating in a working group started by the administration and auditor to develop a mutually-agreed to set of measurement practices and measures. Concurrent with that effort, VEPC will develop a set of useful efficiency measures. One goal of such measures will be to ensure that implementation will not render the Council or its programs inefficient. Implementation will depend on the timeline for government-wide implementation of the practices and measures recommended by the working group.

3. ***Establish targets for the TIF measures and show how actual results compare to targets and/or prior year results.***

As discussed with the audit team, new measures and targets have already been developed for the TIF program that was enacted to begin July 1, 2008. The measures and targets are based on the statutory purpose of the program. As provided to the auditor, they are:

NOTE: The Auditor's participation in a working group to develop performance measurement guidance will not involve any decision making, supervisory, or responsibility for ongoing monitoring function for the group.

Vermont Economic Progress Council Response

Measures:

- Revenues are provided to District from increased property values
- Infrastructure required to encourage new real property development and/or redevelopment is built or improved
- Real property development and/or redevelopment occurs
- Employment opportunities are created
- Property tax base increases above original taxable value
- General economic vitality is improved
- Application dependent location and project criteria are met

Targets/Indicators:

- Original taxable value of each parcel
- Projected and actual annual increase in value of each parcel
- Projected and actual annual amount of incremental property tax
- Projected and actual infrastructure development/improvement
- Projected and actual real property development/redevelopment
- Base employment opportunities within District and annual changes in employment
- Projected location and project criteria data and actual location and project criteria data

The last targets will vary depending on the particular location and project approval criteria addressed by the applicant. They could consist of:

- Affordable housing units developed
- Brownfield areas remediated and developed
- New business operations developed or expanded
- Transportation enhancements made, traffic flows improved, public transportation added.

At the time of the audit, no municipalities had been approved under the new program. Since then, one municipality has been approved. VEPC choose to gain the knowledge and experience that came from completing an application approval process under the new program before fully implementing a reporting process. That process is now under development and will be implemented for the next round of TIF reporting, which is due from the municipalities by December 2009, with an annual report by VEPC and the Tax Department to the General Assembly by January 15, 2010.

Appendix IV

Vermont Economic Progress Council Response

NOTE: The Auditor's participation in a working group to develop performance measurement guidance will not involve any decision making, supervisory, or responsibility for ongoing monitoring function for the group.

4. Define goals and strategies on its performance reports to the Legislature and include relevant narrative explanations when necessary such as when targets are not met or when data limitations exist.

The reports issued by VEPC and the Tax Department on the programs administered by VEPC and the Tax Department have never been characterized as performance reports. They are program reports that provide the program data and information that is required by statute and that which Legislators have indicated they desire.

VEPC is participating in a working group formed by the administration and auditor to develop a mutually-agreed to set of practices and measures for performance measurement and reporting. When that process is completed, VEPC will work with the Tax Department to ensure that the annual reports on the VEGI and TIF programs include the program and performance reporting that is recommended by that group.