TECHNOLOGY, TRADE AND COMMERCE AGENCY

Its Strategic Planning Is Fragmented and Incomplete, and Its International Division Needs to Better Coordinate With Other Entities, but Its Economic Development Division Customers Generally Are Satisfied

REPORT NUMBER 2001-115, DECEMBER 2001

Technology, Trade and Commerce Agency's response as of December 2002

Audit Highlights . . .

Our review of the Technology, Trade and Commerce Agency (agency) found that:

The agency has no agency-wide strategic plan, and many program plans continue to lack elements of strategic planning including:

- ☑ ***Goals for all significant aspects of program missions.***
- ☑ ***Targets for significant goals or targets that challenge performance.***
- ☑ ***A comparison of results to targets in external reports.***

Further, external coordination of export services is limited for the agency's International Trade and Investment Division, but recent activities indicate a renewed focus on this issue.

Finally, programs in the agency's Economic Development Division generally satisfy their customers but lack formal processes to measure customer satisfaction.

The Joint Legislative Audit Committee (committee) requested that we review the Technology, Trade and Commerce Agency's (agency) progress in implementing a strategic plan, mission, goals, and performance measures, and that we examine the effect of state policy guidance provided by the World Trade Commission. The committee also requested that we evaluate the agency's coordination activities with external entities involved in export promotion and foreign investment, and the responsiveness of the agency's Economic Development Division to its customers. We found that:

Finding #1: The agency does not have an agency-wide strategic plan, and program plans continue to lack elements of strategic planning.

Despite starting two agency-wide strategic planning processes since 1996, the agency still does not have an agency-wide strategic plan. It has reverted to using individual program plans, which are often incomplete and vary widely because the agency has not set standards for planning. For example, many program plans do not include goals for all significant aspects of their mission or vision statements or for outcomes included in external reports. In some cases, these plans do not include any outcomes goals, thus lacking a focus on the benefits that their programs are trying to achieve. In addition, some plans do not include quantified targets for their goals, and some do not include targets that challenge performance. Moreover, internal and external reports on program accomplishments rarely compare targets that do exist with actual results, reducing accountability within the agency and to stakeholders such as the Legislature. Finally, no programs we reviewed developed plans covering five or more years, and many programs did not consider opportunities or threats from their external environment in establishing their plans, diminishing their ability to position themselves for maximum effectiveness. By de-emphasizing strategic planning, the agency misses the benefits of a broad, outcome-oriented approach, which is vital to integrating diverse programs, allocating resources to efforts that best advance overall goals, and demonstrating the value of the agency's activities.

We recommended that the agency develop an agency-wide strategic plan covering at least five years and include basic strategic planning elements in its process. These elements include goals and targets for all significant aspects of its mission and vision and for significant accomplishments noted in its external reports, outcome goals that focus efforts on results, targets that are challenging in light of past performance and expected economic assumptions, comparisons of results with targets in internal and external reports, and scans of the environment to identify opportunities and threats that could significantly affect goals. We also recommended that the agency report to the Legislature biennially on its progress in implementing a strategic approach to planning.

Agency Action: Partial corrective action taken.

In September 2002 the agency completed an analysis of its strengths, weaknesses, opportunities, and threats, and in December 2002 it published an agency-wide strategic plan, including a mission statement, goals, objectives, and outcomes. Although the agency's strategic plan states that it covers five years, no goals, objectives, or outcomes are tied to a particular timeframe. In addition, the strategic plan does not include quantified targets for outcomes, but it does include a strategy to specify targeted outcomes and intended consequences for each program. In conjunction with the agency-wide strategic plan, the agency has completed one-year business plans for its programs. These plans generally follow a standard format that includes basic strategic planning elements. Nevertheless, some program plans still do not have outcome goals or do not have quantified targets for outcome goals. Finally, the agency did not indicate that it planned to report to the Legislature biennially on its progress in implementing a strategic approach to planning. However, it planned to send its strategic plan, including updates, to the Legislature each year.

Finding #2: Vacancies in the agency's International Trade and Investment Division (International Division) weakened planning and operations at the foreign offices and World Trade Commission (commission).

Lengthy vacancies for appointed positions at some of the International Division units weakened planning and operations. Vacancies at foreign offices, where all positions are appointed, resulted in a lack of plans and focus during two recent years. For instance, almost half of the positions at the Mexico office were vacant for about a year or more, causing the office to function at a minimal level. A review of appointments made to all foreign offices since January 1999 showed that, on average, positions were vacant 10.5 months with the agency taking nearly 9 months to submit nominations. Similarly, the commission lacked a chairperson and did not meet between October 1998 and March 2000. Subsequently, the commission has provided little policy direction. It is now considering initiating its first study since 1998.

We recommended that the agency give high priority to nominating persons to appointed management positions in the International Division and that it nominate persons to appointed staff positions where necessary for program continuity even if managers are not yet appointed. We recommended that the commission consider implementing procedures so it can continue to advise the agency even if a chairperson is not appointed.

➲ ***Agency Action: None.***

The agency did not indicate that it would change its processes for nominating persons to positions in its International Division. It, however, said that it would continue to give the highest priority to filling management and staff appointed positions. When it last reported on this recommendation in June 2002, the agency indicated that between December 2001 and May 2002, there were no new vacancies or hires in the Foreign Trade and Investment Office.

Commission Action: Corrective action taken.

The agency said that the commission's bylaws were amended in May 2002 to allow the vice-chair to call meetings of the commission.

Finding #3: Some data on program benefits and outcomes may be unreliable or inaccurate.

The agency's programs generally do not verify data that may be considered inherently unreliable, such as data from clients who may have an incentive to exaggerate results. For example, the Small Business Loan Guarantee Program relies on estimates provided by borrowers on the number of jobs they expect to create or retain through guaranteed loans. These clients may perceive an incentive to overestimate these outcomes in hopes of securing loan guarantees. Where data is not inherently unreliable, the agency may still report inaccurate results. For example, the agency's Office of Foreign Investment receives data from its clients on the number of jobs they expect to create, but it does not have a process for systematically rechecking this data at the completion of a project, when actual figures should be available. When programs base the results in their performance reports on such data, they risk misstating the true benefits of their programs.

We recommended that the agency verify some of the inherently less reliable, client-supplied information on a sample basis. We also recommended that the agency ensure the accuracy of its data, performing follow-up on client estimates as needed.

➲ ***Agency Action: Partial corrective action taken.***

The agency indicated that the Economic Development Division developed methods and schedules to conduct client surveys to ensure the reliability of data. When it last reported on this issue in June 2002, the agency stated it planned to work with the Employment Development Department to verify client-supplied information on a sample basis. The agency did not address what offices outside its Economic Development Division, such as the Office of Foreign Investment, plan to do in response to our recommendation.

Finding #4: The International Division's efforts to coordinate its export-related services have been limited.

The International Division has coordinated its export-related services with other entities working in the international community to only a limited extent while it appears to have adequately coordinated its services to promote foreign investment. With only limited coordination, the International Division cannot ensure that it has fully leveraged the State's resources and addressed gaps and redundancies in the delivery of services. For example, its Office of Export Development generally uses its own resources to match potential foreign buyers with California exporters, sending trade leads from foreign buyers to other entities only if it cannot find an appropriate exporter match. In addition, the International Division does not hold regular, broad-based coordination meetings with other entities and has experienced problems coordinating with the California Department of Food and Agriculture and the California Energy Commission. Acknowledging it needs to put more effort into coordination, the International Division has begun some initiatives to coordinate export services. Although they are steps in the right direction, their effectiveness remains to be seen, and further initiatives are needed.

We recommended that the International Division increase its coordination efforts, including holding regular meetings with other entities to discuss goals and operations, analyzing the service delivery system to reduce service gaps and redundancies, establishing agreements that spell out its roles and interactions with other entities, and discussing the trade lead system with other entities.

Agency Action: Partial corrective action taken.

The agency said that it conducted and has scheduled meetings with key partners to discuss goals and operations. In addition, activities in the Office of Export Development's 2002–03 business plan include implementing an agreement to coordinate activities between the office and the 17 Centers for International Trade Development, dissemination of trade leads that do not fall within the office's core competencies, and including other entities working in the international arena as participating partners in the office's events. The agency also said that it has been negotiating roles and responsibilities with other state agencies although it did not indicate that it had entered into formal agreements with them. The agency's strategic plan calls for working with existing partners to identify similar programs and services and achieve a more coordinated system of service provision and referral.

Finding #5: Possible redundancy in the existing service delivery structure merits further study.

The current service delivery structure seems to perpetuate redundancies. Under the existing structure, the International Division promotes its services, generates trade leads, matches trade leads with exporters, organizes trade missions and shows, and guarantees loans to exporters. Various other entities provide similar types of services, and duplication of services appears to occur at the local, state, and federal levels. The question of which entities should provide particular services is, however, complicated. Although some entities may provide similar services, their overall mission, focus, and policy on charging for services may be different. In addition, entities represent different levels of government, and some are not even a part of government. Despite these complications, the issue of possible redundancies warrants further attention, with an eye toward better leveraging each party's efforts.

We recommended that the Legislature consider commissioning an independent statewide study of the existing delivery system for export services to determine the best division of work and resources among the various entities in the international arena.

Legislative Action: Legislation vetoed.

In August 2002, the Legislature passed Assembly Bill 627 requiring the California State University to conduct a two-year study on existing delivery systems for export services for businesses in California, and to recommend the most appropriate and efficient division of work and resources among both public and private sector agencies and organizations, including the Technology, Trade and Commerce Agency. In vetoing this legislation, the governor said that while such a study might provide useful information, he could not support expenditures for the study at this time, given the State's $24 billion deficit.

Finding #6: The agency's Economic Development Division generally provides good customer service, but it could benefit from formal processes to measure customer satisfaction.

Although programs lack formal feedback mechanisms and targets for customer satisfaction, our survey of a sample of customers for seven Economic Development Division programs found that customer service rankings for five programs were above average. Nevertheless, the survey results indicated room for improvement, with some customers noting specific concerns. Customers' suggestions included improving the timeliness of information, being more proactive in obtaining feedback, and improving the transition process during changes in administration. By using formal methods, such as goals and targets for customer satisfaction and customer satisfaction surveys, programs would be able to measure their performance and more reliably determine customers' unmet needs and expectations.

We recommended that the Economic Development Division improve customer satisfaction by developing goals and targets for customer satisfaction, periodically surveying customers to gauge the quality of customers service, evaluating performance by comparing survey results with targets, and changing services as needed.

Agency Action: Corrective action taken.

The Economic Development Division revised work plans to include survey methods and a schedule for gauging the level of customer satisfaction. It also revised its plans to incorporate methods for comparing results to targets in order to evaluate performance and change services as needed.

Finding #7: The Small Business Loan Guarantee Program needs to work out differences with the financial development corporations.

Although customers for most of the Economic Development Division programs we reviewed were satisfied, those of the Small Business Loan Guarantee Program were not. These customers, financial development corporations, gave the program a score of only 2.2 on a 5-point scale. The financial development corporations' concerns included inconsistent and slow technical service, lack of continuity during the latest transition in state administrations, lack of a statewide marketing effort for the program, and no efforts to gain their feedback. Some also complained that the program did not do enough to promote increased state funding.

We recommended that the Small Business Loan Guarantee Program work with the financial development corporations to discuss their concerns and determine what actions it should take to resolve them.

Agency Action: Partial corrective action taken.

The agency met with the financial development corporations in February 2002 to address funding concerns. In addition, the 2002–03 business plan for the Office of Small Business calls for it to meet with the financial development corporations every four months and to conduct a satisfaction survey of financial development corporations.