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AGENCY REVIEW

DEPARTMENT OF COMMERCE DEVELOPMENT OFFICE

AUDIT OVERVIEW

The Development Office Has Not Improved
Performance Measures

The Development Office Has Improved Its
Employee Evaluation System



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WEST VIRGINIA LEGISLATIVE AUDITOR

PERFORMANCE EVALUATION & RESEARCH DIVISION

Building 1, Room W-314
State Capitol Complex
Charleston, West Virginia 25305
(304) 347-4890

Aaron Allred
Legislative Auditor

John Sylvia
Director

Brian Armentrout
Research Manager

Tina L.C. Baker
Research Analyst

Derek Thomas
Referencer

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EXECUTIVE SUMMARY

This review is an update of the September 2007 Performance Evaluation of the West Virginia Development Office (WVDO). The purpose of this update is to determine whether WVDO has complied with recommendations made in that report. Of the six recommendations with which compliance was evaluated, the WVDO demonstrated compliance with one, partial compliance with three, and non-compliance with two recommendation.

In response a recommendation made in the previous report, the Executive Director issued a directive requiring annual employee evaluations. The WVDO has also incorporated outcome measures in addition to input measures into its evaluation system and demonstrates planned compliance with the recommendation that evaluation forms be fully completed. Although the WVDO uses multi-state comparisons to determine West Virginia’s advantages over other states in responding to preliminary contacts, no efforts are made to track the results of these preliminary contacts in order to determine which methods are more effective at attracting businesses. The WVDO has not complied with the recommendation to develop outcome measures for determining the organization’s performance.

Of the six recommendations with which compliance was evaluated, the WVDO demonstrated compliance with one, partial compliance with three, and non-compliance with two recommendation.

This update uses the following designations for compliance with previous recommendations made by the Legislative Auditor:

Table 1 Levels of Compliance	
In Compliance	The Division has corrected the problem(s) identified in the previous report.
Partial Compliance	The Division has partially corrected the problem(s) identified in the previous report.
Planned Compliance	The Division has not corrected the problem(s) identified in the previous report, but has provided sufficient documentation that the agency will do so in the future.
In Dispute	The Division does not agree with either the problem identified or the proposed solution.
Non-Compliance	The Division has not corrected the problem(s) identified in the previous report.
Requires Legislative Action	The recommendation was intended to call the attention of the Legislature to one or more issues that may or may not require statutory changes.
Legislation Enacted	The Legislature took legislative action to issues raised by the Legislative Auditor in the 2007 report.

OBJECTIVE, SCOPE & METHODOLOGY

Objective

This agency review of the West Virginia Development Office (WVDO) was conducted as part of the Departmental Review of the West Virginia Department of Commerce mandated by West Virginia Code §4-10-8(b)(3). The objective of this review was to determine the WVDO's compliance with recommendations made in a 2007 report by the Legislative Auditor

Scope

The scope of this report was actions taken by the WVDO since the release of the Legislative Auditor's report in September 2007.

Methodology

In order to determine the WVDO's compliance with previous recommendations, the Legislative Auditor corresponded with WVDO staff and reviewed information found in the West Virginia Code of State Rules, WVDO reports and other publications, and employee evaluation forms.

ISSUE 1

The Development Office Has Not Improved Performance Measures.

Recommendation 1

The Development Office should develop performance measures that measure the outcomes of its programs.

Level of Compliance: Non-Compliance

An organization's performance is measured by several interrelated elements:

- Inputs - the amount of a particular resource, such as money or staff time, used to produce results;
- Activities - the actions taken by a program to produce results;
- Outputs - the amounts of products or services produced, such as clients served or business contacts made;
- Outcomes - changes, such as an increased number of foreign investors, indicating progress toward the organization's mission or objectives; and
- Efficiency measures - a cost per unit measure indicating how efficiently the organization is producing results.

Since outcome measures are linked to the agency's mission, these are more indicative of the success and effectiveness of the agency's programs. Consequently, the Legislative Auditor indicated in the 2007 report that WVDO should develop outcome measures for all its programs.

In the September 2007 evaluation of the West Virginia Development Office (WVDO), the Legislative Auditor found that the WVDO was not utilizing outcome measures to determine the effectiveness of its programs. Instead, it was relying on input, output, and activity measures in all but two of its divisions. Since outcome measures are linked to the agency's mission, these are more indicative of the success and effectiveness of the agency's programs. Consequently, the Legislative Auditor indicated in the 2007 report that WVDO should develop outcome measures for all its programs. When asked whether outcome measures had since been developed, the WVDO pointed to the following:

- Evaluation of trade shows by the WVDO beginning in 2008;
- WVDO support of initiatives such as the reform of Workers' Compensation, phased reduction of the corporate net income tax rate, and phased reduction and eventual elimination of the business franchise tax; and

- The use of multi-state comparisons in preparing and analyzing economic development marketing materials.

The 2009 evaluation of trade shows is provided in Appendix B. As the appendix shows, in 2009 the WVDO measured the cost of each trade show; the number of leads, suspects, and contacts made at each show; and the cost per lead, suspect, and contact. For the 2010 analysis, the term suspect has been eliminated due to a strong similarity between suspects and leads. Both suspects and leads refer to companies that illustrate the potential for investment projects, but more information is known about leads. As used in this analysis, the WVDO defines contacts and leads as follows:

- *Contact – a quality company in one of our target sectors that merits continued follow-up but shows no immediate investment opportunity.*
- *Lead – a company that has expressed plans for an investment project in the short or long term.*
- *Both contacts and leads are generated from a business or industry; not trade organizations.*

The WVDO indicated that trade show evaluation *illustrates the cost per lead versus the actual quality of the lead obtained; thereby allowing us to maximize outcomes in a cost effective manner.* Additionally, the WVDO stated that the calculations were preliminary and that variables would not be seen until year five of evaluation. When questioned by the Legislative Auditor as to what variables would be included in the long-term analysis, the WVDO indicated the continued use of the formula shown in Appendix B; e.g., the number of contacts/leads generated and associated costs of a trade show. **The evaluation of trade shows as currently conducted by WVDO is not a measure of outcomes, but a measure of inputs (trade show cost) and outputs (number of leads, contacts, or suspects).** In order to determine the effectiveness of trade shows, the WVDO should expand the scope of the evaluation process to track the outcome of leads and contacts made – how many leads or contacts actually result in the establishment of investment projects.

The support of initiatives by the WVDO such as the reform of Workers' Compensation, phased reduction of the corporate net income tax rate, and phased reduction and eventual elimination of the business franchise tax is also not an outcome measure, but an activity measure. The Legislative Auditor inquired whether there are plans to track the

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resulting outcomes of these initiatives in order to determine the impact on business development in West Virginia, to which the WVDO responded:

...tracking outcomes of any specific business initiative would be unreliable and potentially misleading (not to mention an inefficient use of scarce resources) due to the fact that business development in West Virginia depends upon a variety of factors. However it is clear that aggressive tax modernization efforts, quality training programs, innovative reforms such as the privatization of workers' compensation, and the implementation of bold initiatives such as the High Technology Business Property Valuation Act and Aircraft Valuation Tax Credit help to create a positive business climate and are known variables in promoting business growth.

The use of multi-state comparisons in preparing and analyzing economic development marketing materials is also an activity measure, rather than an outcome measure. Regarding this comparative data, the WVDO states the following:

The WVDO continuously updates comparative data it uses daily when preparing proposals for prospective businesses and to respond to request from companies, local economic development authorities, and site location consultants for information. In order to attract and expand businesses, it is essential to understand the factors that businesses consider when they make locational and expansion decisions. The WVDO analyzes these factors and promotes those where we have advantages.

The WVDO did indicate that it is currently in the process of developing a Customer Relationship Management system, stating the following:

The WVDO is working with the Office of Technology to define the needs across the agency in order to develop a Customer Relationship Management (CRM) system

The use of multi-state comparisons in preparing and analyzing economic development marketing materials is also an activity measure, rather than an outcome measure.

The WVDO is currently in the process of developing a Customer Relationship Management system.

which will provide management with the appropriate tools to manage and more efficiently determine statewide investments and their impacts on the state...The proposed CRM system will provide the WVDO with a comprehensive database which will assimilate data from the various divisions within the office; thereby allowing management to access a broad range of information to be used for tracking, reporting, analysis, etc. At this time, we are in the early stages of analysis and timelines are being established...

The development of the CRM system will provide the WVDO with an opportunity to establish outcome measures in compliance with the prior recommendation made by the Legislative Auditor. Development of outcome measures will enable the WVDO to effectively gauge the impact of its programs in order to better meet the needs of the state and fulfill its mission.

Recommendation 2

The Development Office should consider reviewing and analyzing records of preliminary business contacts to assist in identifying practices that are more effective in attracting business investment to the state.

Level of Compliance: Partial Compliance

In the September 2007 evaluation of the WVDO, the Legislative Auditor found that the WVDO was not reviewing records of preliminary contacts with businesses and recommended that the WVDO begin doing so, stating the following:

Organizing and analyzing records of preliminary contact activity with businesses showing interest in West Virginia can be valuable in identifying practices that are more effective at attracting businesses to the state.

The WVDO indicates compliance with this recommendation through the use of the multi-state comparative data to prepare proposals for and respond to information requests from businesses, development authorities, and location consultants. However, when asked whether records of these contacts are maintained in order to track the requests

The development of the CRM system will provide the WVDO with an opportunity to establish outcome measures in compliance with the prior recommendation made by the Legislative Auditor.

In the September 2007 evaluation of the WVDO, the Legislative Auditor found that the WVDO was not reviewing records of preliminary contacts with businesses and recommended that the WVDO begin doing so.

The WVDO uses multi-state comparative data to prepare proposals for and respond to information requests from businesses, development authorities, and location consultants. However, records of these contacts are not maintained in order to provide insight into what methods attract or fail to attract business investment to the state, which was the intent of the Legislative Auditor's recommendation.

made and the resulting outcomes, such as whether a business locates in West Virginia after receiving proposals or information, the WVDO states the following:

...tracking outcomes of any specific business initiative would be unreliable and potentially misleading (not to mention an inefficient use of scarce resources) due to the fact that business development in West Virginia depends upon a variety of factors.

The ability to compare West Virginia's advantages and disadvantages to those of other states in preparing information and proposals for entities is certainly an important tool. However this does not provide insight into what methods attract or fail to attract business investment to the state, which was the intent of the Legislative Auditor's recommendation.

Recommendation 3

The Development Office, or another qualified entity such as the West Virginia University or Marshall University Schools of Business, should develop outcome measures internally to fairly and accurately report the results of agency's efforts.

Level of Compliance: Non-Compliance

In response to the lack of outcome measures provided by the WVDO during the 2007 evaluation, the Legislative Auditor conducted a measure of outcomes by calculating per capita Foreign Direct Investment and export dollars for West Virginia and competitor states in order to gauge performance of the International Division of the WVDO. It was recognized that these measures might not be the most meaningful in determining the state's economic competitiveness. Therefore, it was recommended that the WVDO develop outcome measures to accurately gauge the results of agency efforts or that the WVDO utilize the expertise of another qualified entity, such as the West Virginia University or Marshall University Schools of Business to do so. As discussed under Recommendation 1 above, outcome measures have not been developed by the WVDO. Upon inquiry from the Legislative Auditor, the WVDO indicated that it has not consulted with any outside entity to develop outcome measures.

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Issue 2

The Development Office Has Improved Its Employee Evaluation System.

Recommendation 4

The Legislative Auditor recommends that the Development Office should conduct employee evaluations annually.

Level of Compliance: In Compliance

In conducting the 2007 evaluation of the WVDO, the Legislative Auditor requested employee evaluations of specific positions within in the WVDO and found that, although evaluations of some positions were current, other positions had not been evaluated for several years. The 2007 report stated:

Given the importance of economic development and the level of compensation allocated to the Development Office, performance measurement and employee accountability should be of high priority.

Although the WVDO and other classified-exempt agencies do not fall under the Division of Personnel, many such agencies tend to follow the Division of Personnel's policies, which require annual evaluations. Therefore, the Legislative Auditor recommended that the Division conduct evaluations annually.

On April 27, 2010, the Legislative Auditor requested the most recent employee evaluations for the same positions obtained for the 2007 report. The majority of evaluations received were conducted after this request was sent. Upon inquiry as to whether employee evaluations had been conducted annually following the release of the 2007 report, the WVDO stated the following:

The policy of the WVDO in previous years was to conduct employee performance appraisals based on an employee's hiring date. However, due to factors such as administrative personnel leaving for other employment, restructuring of the office and a change in executive directors, not every employee received an employee performance appraisal after the release of the September 2007 Performance Audit of the WVDO. While work plans were in place to monitor employee performance; not every employee received an employee performance appraisal. However, in

In the 2007 evaluation, the Legislative Auditor recommended that the Division conduct evaluations annually.

In direct response to the requirement that the WVDO conduct annual appraisals for all staff, a directive from Executive Director Kelley Goes was sent out on May 5, 2010, stating that all staff will be evaluated on a calendar year basis.

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This directive requiring that all staff be evaluated on a yearly basis brings the WVDO into compliance with the recommendation made in the previous report.

Recommendation 5

The Legislative Auditor recommends that the Development Office should fully complete the employee evaluation forms.

Level of Compliance: Partial Compliance

In conducting the 2007 evaluation, the Legislative Auditor found that some employee evaluation forms were incomplete, leaving blank pertinent sections that *would prove useful in identifying objectives completed and areas of concern during the evaluation period.* Although several of the evaluations obtained in order to determine compliance with the recommendation made in the 2007 report were incomplete, the WVDO explained the missing information and indicated planned compliance as follows:

The previous director of the Small Business Development Center did not complete performance evaluations and, due to the fact that the current director has been employed for less than six months, it is not appropriate for evaluations to be submitted at this time; however the Small Business staff will be evaluated in January of 2011...The previous director of Community Development departed for another position and was not able to complete his part of the evaluation for one member of his staff.

Evaluations for other departments were fully completed, thereby complying with the recommendation that the WVDO complete employee evaluation forms.

In the 2007 evaluation, the Legislative Auditor recommended that the Development Office should fully complete the employee evaluation forms.

Although several of the evaluations obtained in order to determine compliance with the recommendation made in the 2007 report were incomplete, the WVDO explained the missing information and indicated planned compliance.

Recommendation 6

The Legislative Auditor recommends that outcomes of performance be measured at the employee level and that such measures be attributable to the agency's mission.

Level of Compliance: Partial Compliance

The 2007 evaluation pointed out that employee performance was often measured by outputs, such as the number of meetings organized, rather than outcomes, such as new businesses created. While the WVDO still primarily focuses on outputs rather than outcomes as performance measures, some outcome measures are now being utilized. The WVDO indicates that all projects are

assigned a representative to assist and monitor the various stages of development. In the case of the Business & Industrial Development division, either a business expansion and retention representative for existing industry or marketing representative for new investment into the state is assigned to the prospective business. Additionally, WVDO representatives work with economic development entities (state, local, and international) to bring about the successful completion of each project.

The WVDO generates reports to monitor performance that measure such variables as new, current, and retained employment and investment resulting from projects handled by WVDO representatives. Additionally, the West Virginia Small Business Development Center (WVSBDC) within the WVDO monitors the impact of counseling services performed by the WVSBDC staff including economic impact data such as jobs created and retained, number of businesses created, and the number of start-up firms remaining in business after one year.

Although measures of employee performance have been improved, there is no indication that the WVDO expands these measures to report on outcomes at the agency level. As discussed in further detail under Recommendation 1, the WVDO does not measure agency outcomes, instead focusing primarily on inputs and outputs to measure agency performance. Since reports are generated that illustrate outcome measures at the employee level, the WVDO should consider compiling these figures into overall outcome measures for the agency. For example, jobs created by projects handled by individual employees could be compiled to illustrate the total number of jobs created by all agency projects.

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Appendix A: Transmittal Letter

WEST VIRGINIA LEGISLATURE *Performance Evaluation and Research Division*

Building 1, Room W-314
190C Kanawha Boulevard, East
Charleston, West Virginia 25305-0610
(304) 347-4890
(304) 347-4939 FAX



John Sylvia
Director

July 22, 2010

Kelley Goos
Cabinet Secretary
West Virginia Department of Commerce
State Capital Complex
Building 6, Room 353
Charleston, WV 25305

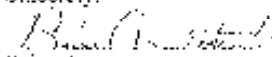
Dear Secretary Goos:

This is to transmit a draft copy of the Compliance Review of the 2007 Performance Review of the West Virginia Development Office. This report is scheduled to be presented during the August 9-11 interim meeting of the Joint Committee on Government Operations and the Joint Standing Committee on Government Organization. We will inform you of the exact time and location once the information becomes available. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions the committees may have.

If you would like to schedule an exit conference to discuss any concerns you may have with the report, please contact me or Tina Bayer, Research Analyst, at 304-347-4890 by Monday, July 26, 2010. We need your written response by noon on Wednesday, July 28, 2010 in order for it to be included in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 304-301-5192 by Thursday, August 5, 2010 to make arrangements.

We request that your personnel not disclose the report to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely,


Brian Armentrout
Research Manager

cc: Jon Amador, Deputy Secretary, WV Department of Commerce
Mark Julian, Deputy Executive Director, WV Development Office

Joint Committee on Government and Finance

Appendix B: 2009 Trade Show Cost Analysis

WEST VIRGINIA DEVELOPMENT OFFICE
TRADE SHOW COST ANALYSIS 2009

Events for 2009	Date	State	Booth (shipping furniture, ads, etc...)	Travel/ Lodging/ Meals	Total	Leads	Cost/Lead	Suspects	Cost/Suspect	Contacts	Cost/Contact	WYDO Reps	Other Reps
Int'l Poultry Expo Atlanta, GA	Jan. 28-30, 09	GA	\$0.00	\$1,639.77	\$1,639.77	0						John Mallett	Mallie Combs
Pitt Conn Chemical Chicago, IL	Mar. 1-3, 09	IL	\$0.00	\$1,198.26	\$1,198.26	5	\$240			18	\$67	Hollie Hubbert	
Industrie Lyon Metals/Machine Tools Lyon, France	Mar. 1-3, 09	FR	\$13,961.30	\$1,501.58	\$15,462.88	10	\$1,546					Sven Gerzer Hollie McGinnis	
CoreNet Global Dallas, TX	Apr. 26-28, 09	TX	\$5,668.66	\$3,541.41	\$9,210.07	4	\$2,303	8	\$1,151	5	\$1,842	Tiffany Ellis-Williams Kris Hopkins	Don Rigby
WindPower 2009 Energy Chicago, IL	May 4-7, 09	IL	\$9,938.28	\$4,332.79	\$14,271.07	14	\$1,019			37	\$386	David Lieving Angela Mascia	Mallie Combs Judy Radford Sharon Shaffer Steve Christian
Achema 2009 Chemicals Frankfurt, Germany	May 11-15, 09	GR	\$36,794.53	\$12,584.88	\$49,379.41	10	\$4,938	13	\$3,798	44	\$1,122	Sven Gerzer Hollie McGinnis	Gary Walton Heather Vanater Kevin DiGregorio Horst Siffirin Shmika Dhuri Joe Blaylock
Sampe Aerospace-Composite Baltimore, MD	May 19-21, 09	MD	\$7,187.65	\$2,281.35	\$9,469.00	6	\$1,578	4	\$2,367	6	\$1,578	Tiffany Ellis-Williams Steve Spence	Len Tartamella, Mike Gray, RCBI
NPE Plastics Chicago, IL	Jun. 22-26, 09	IL	\$0.00	\$3,664.15	\$3,664.15	7	\$523	2	\$1,832	141	\$26	Hollie Hubbert Moses Zegeer	Karen Facemyer Sharon Albert Doug Ritchie
Biometrics Conference Tampa, FL	Sep. 22-24, 09	FL	\$1,999.77	\$2,269.37	\$4,269.14	5	\$854	13	\$328	24	\$178	Kris Hopkins	Bob McLaughlin
MetalCon International Attending Tampa,	Oct. 6-8, 09	FL	\$0.00	\$2,591.86	\$2,591.86	7	\$370	7	\$370	9	\$287.98	Dick Jennings Steve Spence	
Data Center World Orlando, FL	Oct. 5-6, 09	FL	\$5,690.57	\$3,577.74	\$9,268.31	5	\$1,854	5	\$1,854	10	\$927	Mark Julian Dick Jennings Tiffany Ellis-Williams	
CoreNet Global Consultants Walking Las Vegas, NV	Oct. 11-13, 09	NV	\$2,550.00	\$2,805.70	\$5,355.70	6	\$893	2	\$2,678	22	\$243	Kris Hopkins Tiffany Ellis-Williams	Don Rigby

Appendix C: Agency Response

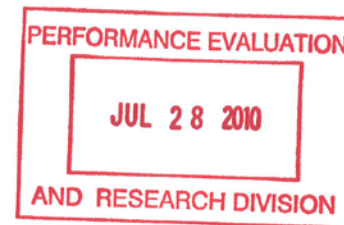


WEST VIRGINIA DEVELOPMENT OFFICE

1900 Kanawha Boulevard East • Charleston, WV 25305-0311
(304) 558-2234 • (800) 982-3386 • www.wvcommerce.org

July 27, 2010

Mr. Brian Armentrout
Research Manager
Performance Evaluation and Research Division
West Virginia Legislature
Building 1, Room W-314
Charleston, West Virginia 25305-0610



Dear Mr. Armentrout:

This letter is in response to your correspondence of July 22, 2010, regarding the Compliance Review of the 2007 Performance Review of the West Virginia Development Office (WVDO) which is scheduled to be presented during the August 9-11, 2010, interim meeting of the Joint Committee on Government Operations and the Joint Standing Committee on Government Organization.

I am pleased to report that the required employee evaluations have been completed for the entire WVDO staff. As reported previously, I issued a directive on May 5, 2010, that staff would be evaluated on a calendar year basis (January 1-December 31). However, please be aware that the performance of representatives involved in economic and community development is reviewed consistently throughout the year by various methods which were explained in detail in previous correspondence.

In an effort to better measure the impact and outcomes of investment into the state as relates to economic and community development, the WVDO has been evaluating the development of a Customer Relationship Management (CRM) system since 2008. After extensive research and consultation between the WVDO staff and the Office of Technology (OT), the OT is now preparing a document to solicit bids for the actual development of the system with a 2011 goal for implementation. This CRM system will provide the integration and information of multiple divisions which will allow the WVDO to compare variables which affect outcomes of businesses and infrastructure; e.g., investment, expansion and retention, training, land, water and sewer, etc. Additionally, this comprehensive system will not only provide management the necessary tools to access detailed information to be used for tracking, reporting and analysis of outcomes, it will also provide a broader range of data relevant to the evaluation of individual employees. Furthermore, it is the intent of the WVDO to provide the most current and accurate information available to monitor existing factors affecting investment in the state and to provide quality data that can be used to assist in future initiatives.

Finally, in response to your recommendation to consider enlisting the assistance of either the West Virginia University or Marshall School of Business in developing outcome measures, we will explore those options after the implementation of the CRM system. Thank you for your efforts to evaluate and make recommendations to the West Virginia Development Office on ways to improve the functionality of our office.

Sincerely,

Kelley Goes
Executive Director

KG/lt



WEST VIRGINIA LEGISLATIVE AUDITOR

PERFORMANCE EVALUATION & RESEARCH DIVISION

Building 1, Room W-314, State Capitol Complex, Charleston, West Virginia 25305

telephone: 1-304-347-4890 | www.legis.state.wv.us/Joint/PERD/perd.cfm | fax: 1-304-347-4939