

PERFORMANCE AUDIT REPORT

**Reviewing the Compensation of
Executives of the State's
Economic Development Agencies**

Executive Summary ***with Conclusions and Recommendations***

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
September 1996**



Legislative Post Audit Committee

Legislative Division of Post Audit

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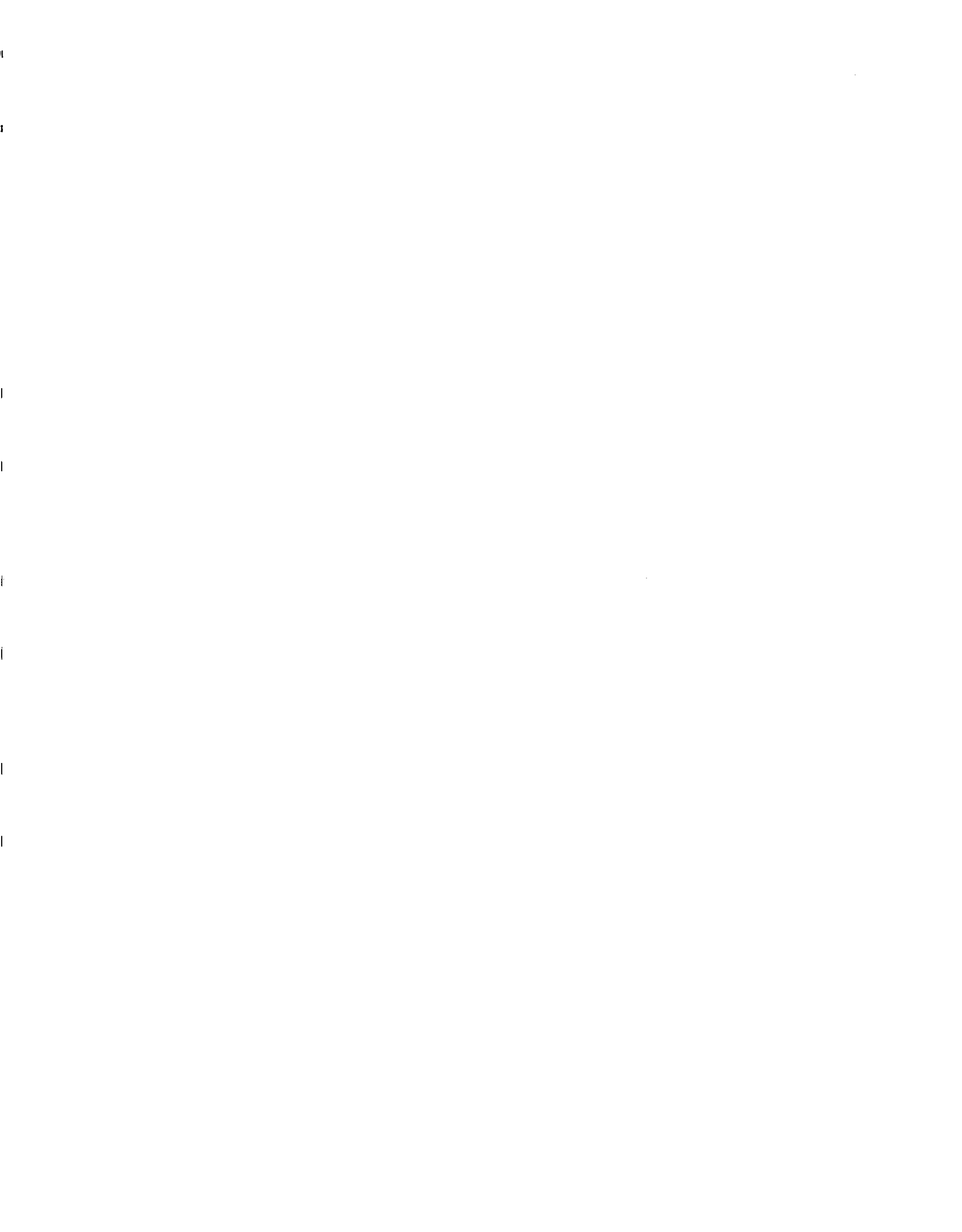
To: Members of the Kansas Legislature

This executive summary contains the findings, conclusions, and recommendations from our completed performance audit, Reviewing the Compensation of Executives of the State's Economic Development Agencies.

The report also contains appendices showing the companies that have received investments from venture and seed capital funds and that have received applied research matching grants. The amount of royalties returned to the State also is shown.

This report includes several recommendations for ensuring that all appropriate economic development agency officials are subject to the State's ethics laws, and that potential conflict-of-interest situations are identified and managed appropriately. The report also lays out some policy options for the Legislature to consider relating to these issues. If you would like a copy of the full audit report, please call our office and we will send you one right away. We would be happy to discuss these recommendations or any other items in the report with you at your convenience.


Barbara J. Hinton
Legislative Post Auditor



**Reviewing the Compensation of Executives of the State's
Economic Development Agencies**

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Question 1: How is the Compensation of Executive-Level Staff in Kansas' Economic Development Agencies Set, and How Do Their Responsibilities and Compensation Compare With Their Counterparts in Other States?

Compensation for the heads of economic development agencies is set by appointing authorities, often based on comparative information. *Their compensation is set by the Governor, the boards they report to, or the deans of the academic departments they work for. The agency heads set the compensation for their employees. Four economic development agency executives make \$100,000 per year or more. Salaries generally were determined through comparisons with similar positions in other agencies. One or more employees in KTEC, MAMTC, and the commercialization corporations were eligible to receive bonuses, but they seldom received the full amount allowed.*

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Compared to other states' economic development agencies, salaries for agency heads in Kansas were near the middle of the range. *Salaries for the President of Kansas Inc. and the Secretary of Commerce and Housing fell within the middle-to-low end of salaries in other states with comparable agencies. The salary and benefits package for the President of KTEC also was in the middle of such salaries, and was comparable to salaries paid to the heads of non-profit and private entities doing similar types of work. Most agency executives received benefits comparable to their counterparts in these other states.*

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Question 2: What Relationships Exist Between Economic Development Agencies and the Companies They Assist, and Are Adequate Laws and Procedures in Place to Deal With Conflicts of Interest That May Result From Those Relationships?

We identified a number of relationships between economic development agency staff and the companies they assisted. *Overall, relationships between employees and the companies they assist were relatively uncommon. Of the 680 companies in our database, we identified relationships in only about 2% of them. However, of the 61 new technology-based companies we reviewed incorporation records for, we identified relationships in 13 of them, or 21%. Not all of the relationships represented conflict-of-interest situations. Most existed between KTEC employees or the employees of the centers of excellence, and the companies they assisted. In most cases, the types of assistance these companies received was technical, rather than financial.*

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State efforts to manage conflicts of interest aren't adequate in a number of respects. *State law is unclear about whether employees of KTEC and Kansas Inc. are subject to the State's ethics laws. Except for the centers of excellence, most economic development agencies don't have formal guidelines for handling conflict-of-interest situations. Although the State requires many employees to file financial disclosure forms, the process hasn't been set up to ensure that agencies review those forms to see if real or potential conflicts of interest exist. The Board of Regents' policies don't require full disclosure of university employees' financial relationships. Also, under Board policies, university employees don't have to report financial interests at the same level as other State employees. Finally, many economic development agency employees we surveyed didn't know what their agencies' policies were regarding potential conflicts of interest.* page 27

Agencies in some states prohibit employees from holding any sort of financial interest in companies they do business with. *Economic development agencies in four of six other states we contacted have stricter conflict-of-interest prohibitions than Kansas. These agencies, which have responsibilities similar to those of KTEC generally prohibit employees from having or acquiring interests in companies that receive funding from the agency, or prohibit the agency from assisting companies that employees have interests in.* page 31

Conclusion. *Clearly, the development of high-technology companies and capacity in Kansas is an area that poses a lot of opportunities, both for economic development in the State and for conflicts of interest between these companies and employees of the State's economic development agencies. In Kansas, to address these potential conflict-of-interest situations, the emphasis has been on requiring disclosure, and allowing the agencies and employees involved to decide how to best manage those potential conflicts. As this audit has shown, that approach has been only partially effective at ensuring that relationships are disclosed and properly managed. Looking towards the future, the Legislature will need to determine whether any appearance of a conflict of interest should be eliminated, or whether it's an inevitable by-product of economic development that should be managed. Given the Legislature's increasing commitment to fund new start-up technologies, it will need to walk a fine line between ensuring that employees don't benefit as a result of their State jobs, and not stifling entrepreneurship and innovation.* page 32

Recommendations. *We made recommendations to ensure that all appropriate economic development agency officials are subject to the State's ethics laws, that potential conflict-of-interest situations are identified and managed appropriately, and that the Board of Regents acts to bring its financial disclosure policies in-line with what's required of other State employees. We also recommended that KTEC require, through its contracts with the commercialization corporations and the venture capital fund manager, the types of limitations, disclosures, and prohibitions it thinks are necessary to ensure that potential conflict-of-interest situations are known and managed. We also laid out some policy options for the Legislature to consider as it deliberates about whether managing conflict-of-interest situations is reasonable, or whether further restrictions should be placed on economic development agency employees.* page 33

APPENDIX A: *Companies Receiving Investments from Venture and Seed Capital Funds* page 36

APPENDIX B: *Companies Receiving Applied Research Matching Grants and Royalties Paid By Those Companies* page 37

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This audit was conducted by Ellyn Sipp, Laurel Murdie, and Scott Brunner. If you need any additional information about the audit's findings, please contact Ellyn Sipp at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call (913) 296-3792, or contact us via the Internet at: LPA@PostAudit.ksleg.state.ks.us.

