Preliminary Performance Review

Steel Advisory Commission and Steel Futures Program

The West Virginia Steel Advisory Commission Offers A Valuable Service to the State's Steel Industry Which Helps Fuel the State's Economy

The West Virginia Steel Futures Program
Carries Out the Duties of the Steel Advisory
Commission and Plays an Integral Role in
Sustaining the State's Steel Industry



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John Sylvia Director

The Honorable Edwin J. Bowman State Senate 129 West Circle Drive Weirton, West Virginia 26062

The Honorable J.D. Beane House of Delegates Building 1, Room E-213 1900 Kanawha Boulevard, East Charleston, West Virginia 25305-0470

Dear Chairs:

Pursuant to the West Virginia Sunset Law, we are transmitting a Preliminary Performance Review of the *Steel Advisory Commission and Steel Futures Program*, which will be presented to the Joint Committee on Government Operations on Sunday, July 13, 2003 in Parkersburg, West Virginia. The issues covered herein are "The West Virginia Steel Advisory Commission Offers A Valuable Service to the State's Steel Industry Which Helps Fuel the State's Economy;" and, "The West Virginia Steel Futures Program Carries Out the Duties of the Steel Advisory Commission and Plays an Integral Role in Sustaining the State's Steel Industry."

This report was initially scheduled for the June interim meeting. However, in order to accommodate the agency, the report was rescheduled for the July interim. We transmitted a draft copy of the report to the Steel Advisory Commission and Steel Futures Program on May 22, 2003. The Commission opted not to have an Exit Conference. To date, we have not received an agency response.

	John Sylvia John Sylvia	
JS/wsc		
	Joint Committee on Government and Finance	

Sincerely,

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Executive Summary

The West Virginia Steel Advisory Commission and Steel Futures Program were created to preserve and improve the economy of West Virginia by addressing certain threats to the State's steel industry, promoting employment, increasing productivity, ensuring continued economic development, and maintaining a high standard of living for the residents of the state. The Steel Advisory Commission is to consist of 15 members representing various sectors of the Steel and Steel-related industry. In 1997 the Commission created West Virginia Steel Futures Inc., a non-profit 501(c)(3) corporation which serves as the Steel Futures Program. In recent years, Steel Futures Inc. has been the most active and integral part of the Commission.

Issue 1: The West Virginia Steel Advisory Commission Offers a Valuable Service to the State's Steel IndustryWhich Helps Fuel the State's Economy.

The Steel Advisory Commission has worked to establish a strategic plan to ensure the continued survival and success of the steel industry. Composed of a cross-section of industry officials and interested parties, the Commission has helped to unite an industry intent on the pursuit of common goals on the state, federal, and international levels. However, in recent years the Commission has been fairly inactive; annual reports have not been produced as scheduled, meetings have not been held as required, and membership has not been properly maintained. Though the activities of the Commission have been beneficial to the state, certain actions are necessary to bring it into compliance with statute.

Issue 2: The West Virginia Steel Futures Program Carries Out the Duties of the Steel Advisory Commission and Plays an Integral Role in Sustaining the State's Steel Industry.

The Program has been successful in ascertaining millions of dollars in grants for research and improvements while helping to align various sectors of the industry so that common objectives can be effectively pursued. The Program has also worked to attract new business to West Virginia which has created jobs and added to the economy. The Steel Futures Program Operates at a cost of less than \$80,000 dollars to the state. Given the amount of grants the Program has secured, the benefits of the Program far outweigh the cost to the state. However, the president, and sole employee of Steel Futures Inc., has resigned and has not yet been replaced. This causes some concern that the activities of

the program may be delayed or discontinued.

Recommendations:

- 1. The Legislative Auditor recommends that the Steel Advisory Commission be continued.
- 2. The Legislative Auditor recommends that the Steel Advisory Commission take the necessary actions to ensure that the Commission meets at least three times annually as required by Code. If the Commission does not begin meeting within the next year, the Legislature should sunset the Commission.
- 3. The Legislative Auditor recommends that the Steel Advisory Commission provide an annual report to the Governor and the Legislature, as required by code, rather than biennially as is the current practice.
- 4. The Legislative Auditor recommends that the Commission take appropriate action to ensure that membership of the Commission is properly maintained.
- 5. The Legislative Auditor recommends that the Legislature consider offering a technical amendment to §31-16-2 to clarify membership appointment in response to the consolidation of the West Virginia Board of Trustees and the Board of Directors of the State College System. The Legislature should also determine whether two members will represent the consolidated entity or one member will represent the State College System, and another representative will be appointed from another entity.
- 6. The Legislative Auditor recommends that the Steel Futures Program, operating as Steel Futures Inc., be continued.
- 7. The Legislative Auditor recommends that the Steel Advisory Commission and the West Virginia Development Office take steps to expedite the process of naming a new President to Steel Futures Inc.

Review Objective, Scope and Methodology

This Preliminary Performance Review of the West Virginia Steel Advisory Commission and Steel Futures Program is required and authorized by the West Virginia Sunset Law, Chapter 4, Article 10 of the West Virginia Code, as amended. The Commission and Program are intended to preserve and improve the state's economy by promoting employment and increased productivity, thereby ensuring continued economic development while maintaining a high standard of living for the residents of West Virginia.

Objective

The objective of this audit is to determine whether there is a need for such a Commission and Program, and if there is, the extent to which the activities of each have been beneficial to the State and its residents. The Legislative Auditor will determine whether improvements are necessary based on the level of success the Commission and Program have had in aiding the industry.

Scope

The performance evaluation covers the period from the Commission's inception in 1993 to the present. With regard to the Program, the review covers its creation in 1997 to the present.

Methodology

Information compiled in this report has been acquired through interviews, conversations and correspondence with the former President of Steel Futures Inc. and the West Virginia Development Office Manager of Business Retention and Expansion. Documents obtained from the Commission include: 1) Commission meeting Minutes from 2000 and 2001; 2) a list of grants obtained; 3) Annual reports from 1998, 1999-2000, and 2001-2002; 4) Budget information regarding the Development Office's Fund 0256; and 5) WVSAC account activity for 1999-2002.

The West Virginia Steel Advisory Commission Offers a Valuable Service to the State's Steel Industry Which Helps Fuel the State's Economy.

Issue Summary

During the 1993 legislative session, the Legislature found and declared that the survival and success of the steel industry is of significant importance to the residents and the tax base of West Virginia (WVC §31-16-1). In order to address certain threats to the steel industry, the Legislature created the West Virginia Steel Advisory Commission and Steel Futures Program.

The purpose of the Commission and the Program is to preserve and improve the economy of the state by promoting employment and increased productivity, thereby ensuring continued economic development consistent with these goals, and to maintain a high standard of living for the residents of the state (WVC §31-16-1).

The Commission has created the Steel Futures Program as required. However, the Commission is not in complete compliance with its statutory requirements. Specifically, the Commission is not publishing an annual report, but publishing a report biennially. In addition, only eleven of fifteen members are currently appointed. The Legislative Auditor has found that the Commission should be continued because its benefits outweigh its cost to the state. However, the Commission has not met since December 2001, which is a year and a half. If the Commission does not meet within the next year, the Legislative Auditor recommends sunset of the Commission.

The Commission Has Established a Strategic Plan to Maximize the Steel Industry's Chances for Survival and Success

The Steel Industry employs nearly 12,000 people with annual sales of over \$5 billion.

The health of the steel industry in West Virginia is important to the overall well-being of the state's economy. Directly, the steel industry employs nearly 12,000 people and over 18,000 indirectly. Steel sales in West Virginia, both directly and indirectly, total over \$5 billion annually. As a percentage of

¹WVU Bureau of Business and Economic Research

total manufacturing jobs in West Virginia, the steel industry represents 14%.² When discussing the role and importance of the Steel Advisory Commission with regard to the West Virginia steel industry, a representative from the West Virginia Development Office stated that:

The Commission keeps state government involved in an industry that employs about 12,000 people, keeps someone in full-time pursuit of opportunities, assigns a dollar value to the industry, identifies cost savings, coordinates lobbying efforts, and keeps West Virginia on the map.

The Steel Advisory Commission has established a strategic plan to address issues facing the industry. Members of the Commission first met in March of 1994, at which time a strategic plan was established whereby the Commission could identify and address issues facing the industry. In accordance with the statutory duties outlined in West Virginia Code §31-16-3 et. seq, the Commission determined that it would:

- Identify training and education needs;
- Convey the promise of the steel industry statewide; and
- Develop futuristic programs that respond to emerging markets.

It was also determined that the Commission would assist and advise companies by taking innovative steps to:

- Support new markets and products;
- Invest in new technologies;
- Stimulate research and development initiatives;
- Encourage economic development; and
- Attract strategic alliances with value-added manufacturers.

Activities Initiated by the Commission Have Been Beneficial to the Steel Industry

The West Virginia Steel Advisory Commission (SAC) has been supportive of the state steel business during the import crisis by aligning the industry with tools that provide a clear-cut dimension for high quality, cost-effective operations, and value-added product investments.

The SAC has joined member companies and unions in support of the Stand Up for Steel campaign aimed at halting the flood of illegal imports into

²WV Bureau of Employment Programs

the domestic market. Together, a resolution was adopted urging the White House and Congress to impose a ban on all illegal imports. This initiative helped launch a federal investigation which led to higher taxes on imported steel.

The SAC has also encouraged advancements in training, market growth, and technology by forging partnerships with a number of related entities.

The SAC has developed partnerships to assist the industry.

- A partnership with the Center for Excellence in Workplace Education (CEWE) has helped the state's steel and steel-related industries assess required workplace skills, evaluate existing opportunities in the educational community, and develop a plan to blend the two. This has helped to bridge the gap between industry needs and opportunities to fully train work forces.
- A partnership with the North American Steel Framing Alliance (NASFA) has helped to promote the use of steel in residential construction.
- The Commission has also worked closely with West Virginia Industries of the Future (IOF-WV), Oak Ridge National Laboratory, and the U.S. Department of Energy-Office of Industrial Technologies to identify and implement projects that will benefit the industry.
- As required by WVC §31-16-3(d), the SAC has created a Steel Futures Program, a nonprofit organization that operates under the title, Steel Futures Inc. Currently most of the actions of the Commission are carried out through the program. (Issue 2 analyzes the activities of the Steel Futures Program.)

The Commission Allows for Cross-Industry Communication

The West Virginia Steel Advisory Commission essentially provides a means for communication and collaboration between industry executives, policy makers, and concerned parties. Given the many diverse aspects of the steel industry, such communication is of undeniable importance. Table 1 shows the current membership representation.

Table 1 Steel Advisory Commission Membership

The Governor of West Virginia or his or her designee

President West Virginia AFL-CIO

Coordinator of Employee Involvement, Weirton Steel Corporation; Independent Steelworkers Union

President & CEO, Steel of West Virginia, Inc.

Vice President - Law and Secretary, Weirton Steel Corporation

Division Manager, AmeriSteel Corporation

Chairman, Sheet Mill Division, Independent Steelworkers Union

Staff Director, District 1, United Steelworkers of America

President, Local 1238, United Steelworkers of America

Senate Member

House of Delegates Member

Source: Steel Advisory Commission 2001 Annual Report

The Legislative Auditor has found that such a diverse cross-section of industry officials has helped to unite the West Virginia Steel Industry. Using the Steel Futures Program as a vehicle, the SAC has made progress in furthering research that makes for more efficient operations, fought against unfair trade practices (both foreign and domestic), and helped to ensure the survival of an industry that is important to the health and well-being of the state's economy and its people.

The Commission's Cost to the State is Minimal

The Commissionion's cost to the State is approximately \$72,000 - \$80,000 annually.

Technically, the Steel Advisory Commission operates at no cost to the state. There are no appropriations provided from state funds. An annual appropriation is provided to the Steel Futures Program, which is a line item appropriation in the West Virginia Development Office budget. Over the past three years these appropriations to the Steel Futures Program have ranged between \$72,713 and \$80,000. Under West Virginia Code §31-16-2(f), members of the Commission are entitled to reimbursement for necessary and actual expenses incurred in the course of duties as members of the

Commission. However, no expenses have ever been claimed by members of the Commission.

Commission Should Begin Meeting as Required or Should be Terminated

The Steel Advisory Commission has not fulfilled its statutory obligation to meet at least three times annually. As outlined in WVC §31-16-2(g):

The Commission shall meet at least three times annually or upon the call of the chairperson or upon the request of five or more members.

The Commission has not met since December 2001.

The Commission has only met twice in the last three years. The last meeting occurred a year and a half ago on December 10, 2001 in Weirton, West Virginia. Prior to that, the last meeting of the Commission had been on September 29, 2000. The Commission did not meet in 2002.

A representative of the West Virginia Development Office, who assists the Commission, maintains that the busy schedule of the Governor and the geographic separation of members hinders the Commission's ability to schedule formal meetings and establish a quorum. The membership is shown previously in Table 1. Currently, the Commission consists of only eleven of the required fifteen members. Vacancies on the Commission have not been properly filled, thereby making it difficult to gather the seven members required to constitute a quorum. The previous two meetings did have a quorum with the 2001 meeting having eight members in attendance, and the 2000 meeting having 13. In addition, members of the public and other representatives with interests in the steel industry were in attendance at both meetings. Though the Commission has not met since 2001, the Development Office staff maintains that members of the Commission are in close contact with one another and retain a working relationship.

The SAC should be terminated if they do not meet within the next year.

The Commission's previous accomplishments are important, and the Legislative Auditor recommends continuation assuming the Commission resumes holding regular meetings. The Legislative Auditor takes issue with the lack of meetings, and questions the necessity of the Commission if meetings are not going to be held. Since meetings have not been held for a year and a half, the Commission is essentially in existence in name only. If the Steel Advisory Commission does not meet within the next year, the Legislative Auditor recommends the sunset of the Commission.

Minor Corrections Are Necessary to Comply With the Commission's Statutory Requirements

Code needs to be amended to clarify membership.

Recent reorganization of the state college system has generated a need for revisions to the code with regards to the Commission's membership. According to the President of Steel Futures Inc., the West Virginia Board of Trustees and the Board of Directors of the State College System have been consolidated. West Virginia Code §31-16-2(a) states that membership of the Commission shall include one member from **each** of these respective entities. Therefore, the Legislative Auditor recommends that the Legislature consider amending this section of the code to clarify this technicality by either requiring two members from the consolidated Board, or by requiring only one member and then adding a representative from another entity.

SAC has not submitted a report annually.

The Commission has also failed to meet its requirement to submit an annual report. However, the Commission has produced several comprehensive and informative reports which have essentially been biennial reports. The most recent report was published in late 2001.

Conclusion

The Legislative Auditor has found that the activities of the Steel Advisory Commission help to ensure the survival of an industry that is important to the economic well-being of the state of West Virginia. Specifically, the industry is important to the economic well-being of several cities and communities in the state. When weighed against the fact that there is no cost for the Commission's operation, the benefits to the state prevail. The Legislative Auditor finds that the Steel Advisory Commission should be continued. However, certain actions are necessary to bring the Commission into compliance with all of its statutory requirements. Most importantly, the Commission needs to meet three times per year to ensure that the Commission is able to continue to implement its strategic plan to maximize the Steel Industry's chances for survival and success. The Commission has not meet since December 2001, which essentially means there has been no activity for a year and a half. With this lack of activity, the Legislative Auditor questions the necessity of the Commission. If the Commission does not meet within the next year, the Commission should sunset. Assuming the activity level of the Commission resumes, the Commission needs to publish reports annually rather than biennially, in order to keep the Executive and Legislative branches of state government informed of its activities. Furthermore, the Commission should take appropriate action to ensure that proper membership is maintained.

Recommendations

- 1. The Legislative Auditor recommends that the Steel Advisory Commission be continued.
- 2. The Legislative Auditor recommends that the Steel Advisory Commission take the necessary actions to ensure that the Commission meets at least three times annually as required by Code. If the Commission does not begin meeting within the next year, the Legislature should sunset the Commission.
- 3. The Legislative Auditor recommends that the Steel Advisory Commission provide an annual report to the Governor and the Legislature, as required by code, rather than biennially as is the current practice.
- 4. The Legislative Auditor recommends that the Commission take appropriate action to ensure that membership of the Commission is properly maintained.
- 5. The Legislative Auditor recommends that the Legislature consider offering a technical amendment to §31-16-2 to clarify membership appointment in response to the consolidation of the West Virginia Board of Trustees and the Board of Directors of the State College System. The Legislature should also determine whether two members will represent the consolidated entity or one member will represent the State College System, and another representative will be appointed from another entity.

The West Virginia Steel Futures Program Carries Out the Duties of the Steel Advisory Commission and Plays an Integral Role in Sustaining the State's Steel Industry.

Issue Summary

West Virginia Code §31-16-3(d) charges the Steel Advisory Commission with the responsibility to develop a Steel Futures Program. In 1997, the West Virginia Steel Advisory Commission created West Virginia Steel Futures Inc., a nonprofit 501(c)(3) corporation which is the Steel Futures Program. The purpose of the Program is to work in conjunction with the Commission to carry out its plans and objectives to support the state's steel and value-added steel industries. **The Legislative Auditor has found that the Steel Futures Program is the most active and integral component of the Steel Advisory Commission.** Steel Futures Inc. has secured millions of dollars in grants to benefit the steel industry. Therefore, considering the Program's \$80,000 annual budget, there is a great benefit to the steel industry and state at a minimal cost. However, the recent resignation of the President of Steel Futures Inc., the Legislative Auditor has some concern that the activities of the Program will be delayed or not continued. **The Steel Advisory Commission needs to actively pursue a replacement for the President of Steel Futures Inc.**

Steel Futures Program Has Secured Grants for the West Virginia Steel Industry

On behalf of the West Virginia Steel Advisory Commission (SAC), West Virginia Steel Futures Inc. has initiated and pursued the acquisition of grants to benefit steel and steel-related industries. Following are several of the grants that have been obtained with the assistance of Steel Futures Inc.:

Steel Futures Inc. has assisted in securing millions of dollars in grants to benefit the steel industry.

West Virginia Steel Futures Inc., in partnership with Oak Ridge Labs, spearheaded efforts to secure a \$2.3 million grant from the U.S. Department of Energy (DOE) for a three-year program to research ways to improve the life and energy efficiency of galvanizing lines. Funds were matched 50/50 by almost 20 participating companies. This was the largest grant ever received by an Industries of the Future Program, which is a coalition of industry and WV state government representatives. According to the SAC's 2001 annual report, participants arehopeful that results will save the industry about

\$46 million and an estimated 2 trillion BTUs in energy a year.

- The Program was instrumental in obtaining a \$25,000 grant from Oak Ridge National Lab for Weirton Steel Corporation. Monies obtained were used to analyze the chemical composition of iron oxide by-products in an attempt to identify a profitable commercial use as an alternative to paying the current \$30 per ton for disposal.
- The Program is supporting a grant solicitation initiated in March 2003 for \$500,000 for The Center for Advanced Infrastructure and Industrial Materials at WVU.
- The Program has initiated the SAC's co-sponsoring of an Office of Industrial Technology/Department of Energy solicitation grant for Industrial Assessment and Best Practices for the Hot-Dip Coating Industry. The President of the Program laid the groundwork for this solicitation at the December 2002 Industries of the Future Symposium.
- The Program has represented the SAC in co-sponsoring a cross-industry project and solicitation grant for Multi-functional Metallic and Refractory Molten Handling Materials. The project is to include other WV industries such as Aluminum and Metal Casting.

With the acquisition of these grants, the Legislative Auditor concludes that the Steel Futures Program plays an integral role in supporting the West Virginia steel industry.

Steel Futures Program Works to Attract New Business to West Virginia

Steel Futures Inc. assists new businesses in locating in WV.

West Virginia Steel Futures Inc. has been involved in assisting new steel businesses to locate in West Virginia. In 1999, it was announced that Okuno International would locate its new manufacturing operation in Wayne County, WV. The President of Steel Futures Inc. maintains that he was in regular contact with the business owner to provide advice and assistance and to educate the owner of the company on how to start up an operation in West Virginia. Okuno's initial investment in West Virginia was \$4.1 million. The plant opened for business in August of 2000 and plans to have 50 employees by the end of 2004 and 200 by 2010. The Legislative Auditor was unable

to determine whether this company would have located in West Virginia without the existence of the Steel Futures Program, although the advice and assistance given by the President was surely a beneficial service to the business owner.

Steel Futures Program's Benefits Outweigh the Cost

The Program operates from minimal appropriations from the State.

An annual appropriation is provided to the Steel Futures Program through a line item appropriation from the budget of the West Virginia Development Office. Over the past three years, appropriations to the Steel Futures Program have ranged between \$72,713 and \$80,000, and have been made as payments to Steel Futures Inc. Table two shows the annual appropriations for the past three years. **These are the only state appropriations to the Steel Advisory Commission and Steel Futures Program.** The President is the sole employee of the Steel Futures Inc. and his salary is paid for through these appropriated funds. Remaining monies are used for the production of annual reports and program operations. Office space and secretarial support are provided by the Weirton law office of Spillman Thomas and Weirton Steel at no charge.

Steel Futures Inc. has assisted the steel industry in securing millions of dollars in grants at a maximum cost of only \$80,000 to the state. Considering the monetary savings and the possible jobs that have been saved or created with the efforts of Steel Futures Inc., the Legislative Auditor finds that the benefits generated by Steel Futures Inc. far outweigh the minimal cost to the state.

Table 2 Steel Futures Program Appropriations			
Fiscal Year	Appropriation		
2003	\$72,713		
2002	\$77,600		
2001	\$80,000		
Source: Legislative Auditor's Office Budget Division			

The President of Steel Futures Inc. Has Resigned

The Legislative Auditor has concern with the resignation of the President of Steel Futures especially since the Development Office staff is inaccessible. According to the Development Office, the President and sole employee of West Virginia Steel Futures Inc. resigned in April of 2003. However, the former President has agreed to act in a voluntary capacity to continue to pursue current projects until a replacement can be appointed. The Development Office further maintains that the former President is working with the SAC to find a replacement; an issue that will be discussed at the Commission's next meeting scheduled for June 2003.

The manager of Business Retention & Expansion within the Development Office acts as the contact person for the Commission and Program, and will continue to do so. Although, the Legislative Auditor questions the availability of the manager, since he was inaccessible during this preliminary performance review. This inaccessibility, combined with the resignation of the President of the Program, causes the Legislative Auditor some concern that the activities of the Program will be delayed or discontinued. The Legislative Auditor recommends that the Steel Advisory Commission take action to expedite the process of appointing a new President of Steel Futures Inc. so that the Program and Commission can continue to effectively pursue current projects, and to ensure that potential benefits to the industry are not foregone.

Conclusion

The Steel Futures Program which operates as West Virginia Steel Futures Inc. is the most active and integral component of the West Virginia Steel Advisory Commission. The Program carries out the duties of the Commission and plays a key role in supporting the state's steel industry. The Program has obtained grants to aid the industry, and has advised and assisted prospective business that wish to locate in the state. The Legislative Auditor has determined that the continuation of the Steel Futures Program contributes to the success of the Steel Advisory Commission and the overall success of the steel industry. Therefore, it is important that the Steel Advisory Commission take the necessary steps to expedite the process of naming a replacement for the position of President of Steel Futures Inc. so that the Program and Commission can continue to seek grants, attract businesses, and pursue projects for the State's economy.

Recommendations

- 6. The Legislative Auditor recommends that the Steel Futures Program, operating as Steel Futures Inc., be continued.
- 7. The Legislative Auditor recommends that the Steel Advisory Commission and the West Virginia Development Office take steps to expedite the process of naming a new President to Steel Futures Inc.

Appendix A Transmittal Letter

WEST VIRGINIA LEGISLATURE

Performance Evaluation and Research Division

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John Sylvia Director

May 22, 2003

Jim Mosby West Virginia Development Office Building 6, Room 525 1900 Kanawha Blvd., East Charleston, West Virginia 25305

Dear Mr. Mosby:

This is to transmit a draft copy of the Preliminary Performance Review of the Steel Advisory Commission and Steel Futures Program. This report is scheduled to be presented at the Sunday, June 8, 2003 interim meeting of the Joint Committee on Government Operations. 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 committee may have. If you would like to schedule an exit conference to discuss any concerns you may have with the report between May 27th and May 30th, please notify us. We need your written response by noon on May 30, 2003 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 340-3192 by Thursday, June 5, 2003 to make arrangements.

We request that your personnel treat the draft report as confidential and that it not be disclosed to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely, John Sylvia John Sylvia

Joint Committee on Government and Finance ______

Appendix B Agency Response

The Steel Advisory Commission did not Provide an Agency Response.