



A REPORT
TO THE
ARIZONA LEGISLATURE

Special Investigative Unit

Special Investigation

Arizona Governor's Office of Economic Recovery

Theft and Fraudulent Schemes

October • 2012



Debra K. Davenport
Auditor General

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STATE OF ARIZONA
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DEPUTY AUDITOR GENERAL

October 26, 2012

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

The Honorable Tom Horne
Attorney General

The Office of the Auditor General has conducted a special investigation of the Governor's Office of Economic Recovery for the period March 2012 through October 2012. The investigation was performed to determine the amount of public monies misused, if any, during that period and the extent to which those monies were misused.

The investigation consisted primarily of inquiries and examination of selected financial records and other documentation. Therefore, the investigation was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, the Office does not express an opinion on the adequacy of the financial records or the internal controls of the Governor's Office of Economic Recovery. The Office also does not ensure that all matters involving the Governor's Office of Economic Recovery's internal controls, which might be material weaknesses under standards established by the American Institute of Certified Public Accountants or other conditions that may require correction or improvement, have been disclosed.

The accompanying Investigative Report describes the Office's findings and recommendations as a result of this special investigation.

After this report is distributed to the members of the Arizona State Legislature, the Governor, and the Attorney General, it becomes public record.

Debbie Davenport
Auditor General

Enclosure

SUMMARY

In November 2011 and again in March 2012, two former AT Security Service (AT) employees separately contacted the Arizona Commerce Authority (ACA) alleging financial misconduct by Jacques Davis, President and Chief Executive Officer of his company, AT. Although the ACA did not document the initial allegation, the March 2012 allegation was forwarded to the Governor's Office of Economic Recovery (GOER). In March 2012, the GOER requested that the Office of the Auditor General investigate the allegation that Mr. Davis may have defrauded the State of \$250,000 in grant monies. As a result of our investigation, we determined that Mr. Davis may have also defrauded an Arizona company of \$493,765. The Attorney General's Office took criminal action against Mr. Davis, resulting in indictments on felony charges for his misconduct (see the Conclusion on page 15 of this report).

Our investigation revealed that in September 2011, Mr. Davis fraudulently obtained \$250,000 of grant monies from the GOER Job Creation Fund. Specifically, in order to obtain these American Recovery and Reinvestment Act State Fiscal Stabilization Fund grant monies, Mr. Davis falsely represented that he had more than 300 employees operating out of AT's headquarters in California. This money was intended to fund AT's relocation to Arizona; however, neither the California headquarters nor the alleged employees existed. Instead, Mr. Davis used the grant monies for the purchase of a Lexus IS 250 automobile, cash withdrawals, and general business expenses. Mr. Davis also deceptively received \$493,765 in lease benefits after providing an Arizona company with similarly false information. Although this money was provided to Mr. Davis for moving expenses and for improvements to the leased office space, Mr. Davis instead used these monies for the purchase of a Lincoln Navigator automobile, cash withdrawals, and general and personal business expenses.

Investigation highlights

Jacques Davis, President and Chief Executive Officer of AT Security Services:

- Fraudulently obtained \$250,000 from the State of Arizona and \$493,765 from an Arizona company by making false representations.
- Attempted to conceal his misconduct by creating at least 34 fictitious personnel files and submitting them to the Arizona Governor's Office of Economic Recovery.

Additionally, in December 2011, after AT received these grant monies, Mr. Davis created 34 fictitious personnel files, attempting to conceal his misconduct. He submitted these documents to the GOER, falsely representing that the files were a sample of AT California employees' files. See Figure 1 on page iii for a summary of events related to the fraud scheme.

Although Mr. Davis employed a scheme to deceive and defraud \$250,000 of public monies from the State of Arizona and its citizens, the GOER failed to exercise an appropriate level of oversight and due diligence when granting these public monies to Mr. Davis and his company. Specifically, the GOER did not perform a sufficient background review on Mr. Davis and AT or otherwise determine that a background review was completed, nor did they request adequate documentation to support AT's alleged California payroll expenses. In addition, GOER officials failed to protect these public monies and ensure that they were used strictly for the purposes authorized. Moreover, after performing a review of AT's employee- and payroll-related documents, GOER officials failed to pursue indications of possible misconduct or "red flags" discovered during their evaluation. Although no internal control system can completely prevent dishonest actions, there are measures the GOER could have taken to help deter and detect instances of misconduct such as those Mr. Davis perpetrated (see Recommendations on page 13 of this report).

Figure 1: Summary of events: AT Security Services fraud January 2011 through May 2012

January 2011

Mr. Davis files Arizona incorporation documents for AT to conduct business in Arizona.

August 2011

Mr. Davis falsely claims that AT is headquartered in Irvine, California, employing more than 300 employees at this location. As a result, Mr. Davis is informed by the ACA that he is eligible for State Fiscal Stabilization Fund grant monies through the GOER Job Creation Fund. However, neither the California headquarters nor the alleged employees exist.

September 1, 2011

Mr. Davis signs a lease with an Arizona company for office space in Scottsdale, Arizona.

September 12, 2011

Mr. Davis submits false documents to the GOER, including a Grant Progress Report, a \$250,000 Request for Reimbursement form, and a fabricated report for AT's alleged August 2011 California payroll expenses.

September 23, 2011

The GOER pays AT \$250,000 of State Fiscal Stabilization Fund grant monies through its Job Creation Fund for AT's alleged California payroll expenses. This check was deposited into two of AT's business accounts on September 28, 2011.

October 27, 2011

An Arizona company deposited \$493,765 for the tenant improvement and moving allowances into another AT business account as was stipulated in the lease agreement signed on September 1, 2011, between Mr. Davis and the Arizona company.

November 2011

The GOER becomes aware that the ACA received an allegation of financial misconduct by Mr. Davis and AT. As a result, GOER schedules a site visit in December 2011 to review specific payroll-related documents.

December 13-14, 2011

Mr. Davis creates at least 34 fictitious personnel files for AT's alleged California employees.

At least two AT employees learn that Mr. Davis created the fictitious personnel files.

December 15, 2011

GOER officials conduct a site visit at AT's Scottsdale office, reviewing and retaining various documents from the 34 fictitious files.

March 2012

The ACA receives a second complaint against Mr. Davis and AT alleging financial misconduct and forwards it to the GOER. GOER officials request that the Office of the Auditor General conduct an investigation.

May 2012

The Office of the Auditor General requests the assistance of the Attorney General's Office in conducting a search warrant at Mr. Davis' personal residence and at AT's Phoenix office location.¹ Thirty-four fictitious personnel files are recovered from Mr. Davis' personal garage.

¹ In February 2012, Mr. Davis relocated his company, AT, from the Scottsdale office location to a Phoenix office location.

Source: Auditor General staff analysis of all available agency, bank, and company records.

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INTRODUCTION & BACKGROUND

In or about January 2011, Mr. Davis, through his representative, contacted the Greater Phoenix Economic Council, a public-private economic development organization that recruits businesses to Arizona from around the world, and informed them that his company, AT Security Services (AT) desired to relocate its offices to Arizona and requested its assistance in obtaining funding for relocation costs. This organization contacted the Arizona Commerce Authority (ACA), which prepared an incentive package based on the fictitious documentation received from Mr. Davis. This incentive package outlined the available ACA and State of Arizona programs that AT was eligible for, which included the American Recovery and Reinvestment Act State Fiscal Stabilization Fund grant monies through the Governor's office of Economic Recovery (GOER).

In November 2011, shortly after the ACA received a phone call alleging financial misconduct by Mr. Davis and his company, AT, a newspaper reporter made a public records request to the ACA regarding this allegation. This initial complaint was not documented or otherwise presented to the GOER; however, GOER officials became aware of these concerns and requested copies of the same documents provided to the reporter. As a result, GOER officials conducted a site visit and reviewed documents relating to AT's California payroll expenditures. The review did not note any deficiencies, and the GOER did not take any action against AT. In March 2012, the ACA received a second complaint alleging similar financial misconduct by Mr. Davis, which it forwarded to the GOER. On March 22, 2012, GOER officials requested that the Office of the Auditor General investigate these allegations.

Source of grant monies fraudulently taken related to the American Recovery and Reinvestment Act of 2009

The source of grant monies Mr. Davis fraudulently obtained were from the federal American Recovery and Reinvestment Act of 2009 (Recovery Act), and more specifically, the State Fiscal Stabilization Fund (Stabilization Fund) grant established by the Recovery Act. The Recovery Act established three goals: (1) create new jobs and save existing ones, (2) spur economic activity and invest in long-term growth, and (3) foster accountability and transparency in government spending. Recovery Act monies were distributed to various recipients, the majority of which included state

and local governments, universities and other research institutions, nonprofit organizations, and private companies.

Title XIV of the Recovery Act created the Stabilization Fund with a one-time appropriation of \$48.6 billion to the states' governors. The State of Arizona was awarded more than \$1 billion of Stabilization Fund monies, which it had to disburse by September 30, 2011. Arizona Governor Janice K. Brewer's Office of Economic Recovery was responsible for overseeing these Stabilization Fund monies.

In March 2009, although a specific amount was not identified, the Governor's Office declared that certain Stabilization Fund monies would be used through the Job Creation Fund to foster job creation in targeted industries, attract high-paying jobs, and stimulate investment in Arizona. To this end, the GOER awarded grant monies to various business entities to help create new jobs and entice these entities to relocate or expand business operations in Arizona.

Mr. Davis created a fictitious California headquarters to perpetrate his scheme

Jacques Davis, AT President and Chief Executive Officer, incorporated AT in the State of Arizona on January 28, 2011, listing his residential apartment complex as the business address. AT's Web site stated that the company provided security services at a variety of locations and events, including personal residences, office buildings, construction sites, conventions, and special events/grand openings, and listed several cities in which it had office locations. Although Mr. Davis had represented to Arizona officials that AT was headquartered in Irvine, California, this information was not included on the Web site and AT employees stated they were not aware of AT having headquarters in Irvine, California. Moreover, AT was not registered or incorporated with the California Secretary of State as required by law, nor did AT hold a business license with the City of Irvine, California. In addition, the California Employment Development Department stated that there was no record to support AT as an existing California company. Although Mr. Davis provided the GOER with an Irvine, California, business address that he purported to be AT's headquarters, the leasing agent for the specified address told Auditor General staff that this office space was never leased to AT or Mr. Davis. Further, although Mr. Davis had provided a California Employment Account number, Employment Identification number, company name, and company address, neither this information nor Mr. Davis' social security number was listed in the California Employment Development Department's data system.

Further, Arizona Department of Economic Security records indicated that, in 2011, Mr. Davis personally received wages totaling approximately \$25,000 while working as an employee for other security companies operating in Arizona during the same time he allegedly was managing AT's headquarters in California.

FINDING 1

Mr. Davis defrauded the State of Arizona and an Arizona company

In September 2011, Jacques Davis, President and Chief Executive Officer of AT Security Services (AT), knowingly obtained, by false pretenses, \$250,000 from the Arizona Governor's Office of Economic Recovery's (GOER) Job Creation Fund. Mr. Davis also deceived an Arizona company, fraudulently receiving over \$493,765 in lease benefits. Mr. Davis submitted several false and fictitious documents to the GOER, originally through the Greater Phoenix Economic Council and the Arizona Commerce Authority (ACA), and later to the Arizona company in order to receive these monies and benefits. Rather than using these monies for the purposes authorized, Mr. Davis purchased luxury vehicles, withdrew large sums of cash, and paid general business and personal expenses.

Mr. Davis submitted false and fictitious documents to various Arizona entities to obtain grant and other monies

Mr. Davis, with the intent to defraud, signed an undated contract with the GOER for the period July 1, 2011 through September 30, 2011, outlining the grant's purpose, which was to reimburse AT \$250,000 of California payroll expenses for expanding its business operations in Arizona. The GOER intended for the grant monies to assist with the purported relocation of AT's headquarters from Irvine, California, to Scottsdale, Arizona. Based on fictitious documents Mr. Davis had previously provided the ACA, this relocation was expected to initially add 100 jobs for the first 2 years at an average annual salary of \$50,000, and then an additional 100 jobs by the third year. Mr. Davis had deceptively represented to the ACA that AT had revenue of \$1.6 million, with over 1,500 employees operating in 20 states, providing fabricated financial statements along with a fake jobs and salary listing.

On September 12, 2011, Mr. Davis submitted a Grant Progress Report deceitfully stating that 100 percent of “job sustainability” had been completed and also submitted a false Request for Reimbursement form asking for salary reimbursement of \$250,000, dishonestly purporting that AT had paid at least this amount for its California employees during August 2011. Mr. Davis also submitted a fabricated five-page spreadsheet for AT’s purported August 2011 California payroll expenses. This spreadsheet falsely listed over 300 individuals whose gross pay totaled \$324,960 for a 2-week pay period in August. Mr. Davis approved and signed this spreadsheet, deceptively verifying its validity. On September 23, 2011, the GOER awarded \$250,000 to AT, relying on the false information submitted by Mr. Davis.

Mr. Davis used a portion of the grant monies and lease benefits for personal expenses

Mr. Davis opened several bank accounts in AT’s name with opening dates ranging from January 29, 2011 through April 23, 2012. On September 28, 2011, Mr. Davis split the \$250,000 grant check for salary reimbursement when he deposited the check into two of AT’s business accounts. In addition, an Arizona company deposited \$493,765 in lease benefits into another one of AT’s business bank accounts on October 27, 2011. The primary purpose for \$377,585 of the lease benefits was for tenant improvements, such as altering walls, flooring, carpet, paint, furniture fixtures, and equipment. However, AT did not use this money to improve or alter the building. The remaining portion of the lease benefits, \$116,180, was to help pay for AT’s move from Irvine, California, to Arizona. However, as stated on page 2, there were no employees or headquarters in California to relocate. Instead, during the period from September 28, 2011 to April 30, 2012, Mr. Davis used over \$290,000 of these monies for purchases at multiple car dealerships in Arizona, cash withdrawals, and for his own personal use. Specifically, Mr. Davis made the following purchases:

- **Car Dealership Purchases**—Mr. Davis spent at least \$187,000 from AT’s business accounts at separate car dealerships in Phoenix and Scottsdale, Arizona. For example, in October 2011, Mr. Davis spent \$34,643 at a Scottsdale car dealership when he paid in full for a 2008 Lexus IS 250 and registered the vehicle in his personal name. Further, in December 2011, Mr. Davis used \$65,200 to pay most of the cost of a new 2012 Lincoln Navigator, which was also registered in his personal name.
- **Cash Withdrawals**—On 77 occasions, Mr. Davis withdrew cash from AT business accounts totaling at least \$89,000 in amounts ranging from \$25 to \$12,000. Mr. Davis withdrew cash up to 17 times in 1 month.

- **Personal Expenses**—Mr. Davis used a portion of the money for personal expenses. For example, on January 30, 2012, Mr. Davis wrote a \$15,000 cashier's check from one of AT's business accounts to himself and deposited the check into one of his personal bank accounts. Mr. Davis spent the entire \$15,000 on travel to Hawaii, car rentals in Arizona, cash withdrawals, and numerous purchases at food and retail establishments. In addition, on November 7, 2011, Mr. Davis wrote a \$1,421.82 cashier's check from one of AT's business accounts to a Phoenix apartment complex where he was leasing an apartment beginning in January 2011 while also allegedly managing AT's headquarters in California.

Civil Complaint

On September 1, 2011, Mr. Davis signed a 10-year agreement with an Arizona company to lease approximately 58,000 square feet of office space at a building located in Scottsdale, Arizona. In return, the Arizona company gave AT leasing benefits totaling \$493,765, based on the alleged falsified documents they received from Mr. Davis. On March 5, 2012, the Arizona company filed a civil complaint against AT and Mr. Davis, alleging breach of contract, fraud, and aiding and abetting fraud, when he failed to pay lease charges for February and March 2012, and then subsequently abandoned the property. On April 27, 2012, the Maricopa County Superior Court ordered a default judgment against AT and Mr. Davis, awarding this Arizona company more than \$5.8 million in damages.

In April 2012, the Maricopa County Superior Court ordered a default judgment against AT and Mr. Davis for breaching a leasing contract, including an award of more than \$5.8 million in damages to an Arizona company.

FINDING 2

Mr. Davis falsified documents to conceal his improper actions

Mr. Davis attempted to conceal some of his misconduct identified in Finding 1 by creating at least 34 fictitious employee personnel files. Specifically, in November 2011, the Arizona Governor's Office of Economic Recovery (GOER) requested a meeting with Mr. Davis to review supporting documentation for a sample of AT Security Services' (AT) personnel files for the California employees listed on the spreadsheet he had previously submitted as justification for the \$250,000 grant award. In order to conceal the fact that these California employees did not actually exist, Mr. Davis created 34 fictitious personnel files and provided them to GOER officials during their scheduled site visit.

Mr. Davis created fictitious California personnel files for the GOER to review

On December 13, 2011, Mr. Davis began creating fictitious personnel files for AT's alleged California employees. Initially, Mr. Davis instructed AT's administrative assistant to complete and sign job applications for these fictitious employees; however, the administrative assistant refused to participate.

Mr. Davis admitted to the administrative assistant that he used his friends' personal data to prepare the fake personnel files. In addition, another administrative assistant was informed that Mr. Davis had also used social security numbers from prior applicants who had never been hired by AT.

Mr. Davis admitted to one of AT's employees that he used his friends' information to create fictitious AT personnel files.

On May 24, 2012, the Attorney General's Office and the Office of the Auditor General conducted a search warrant at Mr. Davis' personal residence and at AT's Phoenix office location.¹ A box containing the 34 fictitious personnel files was recovered from Mr. Davis' personal garage. A GOER staff member

The 34 fictitious personnel files were retrieved from Mr. Davis' personal garage.

¹ In February 2012, Mr. Davis relocated his company, AT, from the Scottsdale office location to a Phoenix office location.

later identified the recovered personnel files as the same ones she had reviewed during the site visit in December 2011 (see page 9).

Auditor General staff reviewed the purported personnel files and attempted to contact the individuals through the listed phone numbers and addresses provided therein. As illustrated in Table 1, all of the contact information presented in these files was either invalid, did not exist, or could not be verified. In fact, some of the addresses listed apartment numbers that did not exist at the specified location, some of the addresses were left blank, and other addresses were for commercial and educational sites, including several listing the University of California Los Angeles' main campus address as their personal address.

Table 1: Summary of Auditor General staff review of 34 fictitious California employee files

Nature of employee information	Number of files noted
Employee addresses and phone numbers: invalid, unable to verify, no longer in service, or not the person	34
Social security number: invalid or registered under a different person's name, or not provided	34
False or missing I-9 form	34
Missing typical employee file documents including applicant resume, copy of a social security card or drivers' license, background check and drug test results, and job performance evaluations	34
No State of California tax withholding form	33

Source: Auditor General staff analysis of company records.

Specifically, for 4 of the 34 files, the social security number was not provided, and for the remaining 30 files, the social security number was either invalid or it was registered in a different person's name. In addition, included in 28 of the files were false Federal I-9 Employment Eligibility Verification (I-9) forms. The remaining 6 files did not include an I-9 form. Federal law requires that all employers verify employment eligibility by completing and retaining these I-9 forms for each employee. Although the I-9 forms listed a purported signature stating that the employer had reviewed the purported employees' social security cards and driver licenses, and these items appeared genuine, none of the 34 files contained copies of social security cards or driver licenses.

Finally, the State of California encourages employers to have their employees complete a California tax withholding form to ensure that the employer withholds the correct amount of California income tax. For 33 of the 34 employee files, AT did not have a completed California tax withholding form. The one completed form listed a purported California employer identification number; however, according to a State of California representative, not only was this number invalid, but AT did not have a California employer identification number.

Mr. Davis' actions in response to the GOER officials site visit

As discussed on page 1, in November 2011, shortly after the Arizona Commerce Authority received the first allegation of financial misconduct by AT and Mr. Davis, the GOER requested information from AT including a system-generated payroll report and copies of paychecks or automatic deposit receipts, and copies of employees' completed employment eligibility I-9 forms. In addition, the GOER scheduled a meeting with Mr. Davis for December 14, 2011, to physically review these documents at AT's Scottsdale office.

On the night prior to GOER's scheduled site visit, at 11:05 p.m., Mr. Davis e-mailed a GOER employee and asked to postpone the visit until December 15, 2011, because of a reportedly mandatory AT emergency board meeting he was required to attend in San Francisco. However, not only was there no board meeting, but Mr. Davis was allegedly in the AT Scottsdale office preparing the fraudulent personnel files for the GOER site visit.

During a site visit, Mr. Davis submitted the 34 fictitious California employee files to GOER officials.

On December 15, 2011, GOER officials met with Mr. Davis and three other AT employees at AT's Scottsdale office, and reviewed and retrieved several I-9 forms from the sample of 34 personnel files.

FINDING 3

Arizona officials failed to fulfill their fiduciary duty

Officials with the Arizona Governor's Office of Economic Recovery (GOER) failed to fulfill their fiduciary duty and ensure sufficient controls were designed and implemented to protect public monies, specifically Job Creation Fund monies. Although Mr. Davis employed a scheme to defraud the State, the GOER failed to exercise an appropriate level of oversight and due diligence when granting public monies to Mr. Davis and his company, AT Security Services (AT). Specifically, the GOER did not perform a sufficient background review on Mr. Davis and AT or otherwise determine that a background review was completed, nor did they request adequate documentation to support AT's alleged California payroll expenses. Additionally, GOER officials failed to ensure the awarded grant monies were used for their authorized purposes and did not pursue indications of possible misconduct or "red flags" discovered during their review of AT's records.

State governmental units, including the Governor's Office, may grant public monies, including state and federal funds, to support and stimulate educational, cultural, social, and economic quality of life. In doing so, Arizona Revised Statutes §41-2701 et seq establishes the requirements for competitive grant solicitation and awards. Under these requirements, applicable agencies must prepare a request for grant applications for the public that describes the grant, funding source, total monies available, evaluation criteria, and their relative importance.

The Governor's Office sought an exemption from these requirements for its Job Creation Fund for several reasons, one of which is because it indicated it wanted to disburse these grant monies to relocating businesses in a timely manner, but the period of time involved with the grant application and review process was impracticable and would delay the State's efforts. On April 8 and October 26, 2010, the Interim Director of the Arizona Department of Administration approved the exemption, thereby allowing the GOER to award grant monies from the Job Creation Fund without having to follow the competitive granting requirements.

In 2010, the Governor's Office sought and received an exemption from following the State's competitive granting requirements for the Job Creation fund.

Despite receiving an exemption from the State's granting requirements, the GOER was still responsible for ensuring that the federal Recovery Act and Job Creation Fund monies it disbursed were used prudently and consistently with the purposes for which they were awarded.

However, the GOER failed to perform and document adequate due-diligence procedures, such as performing a background check on Mr. Davis and AT and requesting adequate documentation for the alleged California payroll expenses, prior to awarding public monies to AT. Although the purpose of the grant was to support the relocation of AT's headquarters from California to Arizona, the GOER did not verify key information, such as whether this company's headquarters were actually located in California.

Although the purpose of the grant was to support the relocation of AT's headquarters from California to Arizona, the GOER did not verify key information, such as whether this company's headquarters were actually located in California.

In addition, although the GOER is required to "monitor the activities of sub recipients as necessary to make sure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved,"¹ officials did not ensure the grant monies were used for their authorized purposes. In particular, even though their own policies required it, GOER officials did not insist that AT provide the listed supporting documentation for the \$250,000 payroll reimbursement, such as payroll reports that clearly identified "personnel names, hourly rates, dates of services provided, hours worked, approval of hours worked by appropriate supervisor and brief description of work performed."¹

Moreover, GOER officials failed to pursue red flags discovered during their review of the 34 personnel files. For instance, a GOER official noticed inconsistencies regarding dates on which some of the alleged employees signed their job application and their Federal I-9 Employment Eligibility Verification forms. When questioned about the different dates, Mr. Davis stated that he made the employees re-sign their forms. The GOER official affirmed to Office of the Auditor General staff that this explanation was odd; however, GOER officials did not pursue this discrepancy or report it to superiors.

¹ State of Arizona, Governor's Office of Economic Recovery. (October 2012). *Guide to the Performing Site Visits*. Phoenix, AZ: State of Arizona, Governor's Office of Economic Recovery.

RECOMMENDATIONS

There are actions the Arizona Governor's Office of Economic Recovery (GOER) could have taken to help deter misconduct like Mr. Davis'. To help ensure the proper use of public monies, including federal Recovery Act monies, the GOER should establish effective controls over its grant awards and reimbursements, including policies, procedures, and monitoring activities. Specifically, GOER officials should:

1. Create and implement formal, written policies and procedures outlining the GOER award process for all grant monies. These polices should outline the process for requesting, approving, and disbursing these monies. These policies should include appropriate due-diligence procedures prior to awarding public monies such as performing background reviews on the grant recipient and verifying grant recipient information with independent sources. The GOER should provide training to educate its employees about this process.
2. Ensure the proper use and control of monies entrusted to it, including those monies allocated for job creation and expansion. As such, the GOER should ensure that grant monies are given to grant recipients only for eligible expenses. Disbursements from grant monies should be processed only after GOER staff have sufficiently reviewed proper documentation. For example, disbursements on a cost-reimbursement basis should be supported with reliable and relevant documentation such as independently approved receipts, invoices, canceled checks, or credit card statements, which appropriately support the grant recipient's initial payment for the expenses. The GOER should maintain this documentation in a separate file for each disbursement or grant awarded.

Conclusion

On October 18, 2012, the Arizona Attorney General's Office took criminal action against Mr. Davis through the State Grand Jury. This action resulted in the indictment of Mr. Davis on 12 felony counts related to theft, fraudulent schemes, forgery, false filing, identity theft, and illegal control of an enterprise.¹

¹ An indictment is a charge of criminal wrongdoing brought by the grand jury. It is not proof of guilt.

