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OFFICE OF THE
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DEPUTY AUDITOR GENERAL

April 15, 2014

The Honorable John Allen, Chair
Joint Legislative Audit Committee

The Honorable Chester Crandell, Vice Chair
Joint Legislative Audit Committee

Dear Representative Allen and Senator Crandell:

Our Office has recently completed an initial followup of the Water Infrastructure Finance Authority regarding the implementation status of the 9 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2013 (Auditor General Report No. 13-08). As the attached grid indicates:

- 2 have been implemented, and
- 7 are in the process of being implemented.

Our Office will conduct an 18-month followup with the Department on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Jay Zsorey, Director
Financial Audit Division

JZ:ss
Attachment

cc: Sandra L. Sutton, Executive Director
Water Infrastructure Finance Authority

Water Infrastructure Finance Authority

Auditor General Report No. 13-08

Initial Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: WIFA provides below-market interest rate loans, but its process could reduce cost savings for some borrowers

<p>1.1 To ensure equitable treatment among projects when setting loan interest rates, WIFA should develop an interest rate determination process, defined in its rules, that calculates the combined interest and fee rate independent of other projects. It should be determined as a fixed discount from the current Municipal Market Date Index or prime rate.</p>	<p>Implementation in process WIFA has modified its rate determination process to rely solely on the merits of the project and community applying for the loan. The modification allows WIFA to continue determining interest rates in an automated, one-step process. As stated in WIFA's original response, WIFA will fully implement the modified rate determination process by July 1, 2014.</p>
<p>1.2 WIFA could further subsidize interest rates depending on the merits of the project. For instance, lower rates can be awarded for projects that:</p> <ul style="list-style-type: none"> a. Serve communities whose median household income is lower than the state median household income; b. Specifically address deficiencies identified by the Arizona Department of Environmental Quality; c. Contain energy-efficient or environmentally innovated aspects; and d. Assist smaller communities. 	<p>Implementation in process See response to recommendation 1.1.</p>
<p>1.3 WIFA should modify its Disadvantaged Community designation to eliminate consideration of unrelated projects.</p>	<p>Implementation in process According to WIFA, it will modify its Disadvantaged Community Designation process to rely solely on a project's Local Fiscal Capacity score (an indicator of a community's economic status) and eliminate comparison to unrelated projects. As stated in WIFA's original response, it will fully implement the modified rate determination process by July 1, 2014.</p>
<p>1.4 The revised process should be tested and evaluated prior to implementation to ensure that it allows WIFA to continue operating without State General Fund appropriations. Following implementation, WIFA should continue to monitor the interest and fee revenues received under the new interest rate determination process to ensure it remains self-sufficient.</p>	<p>Implementation in process According to WIFA, it is testing the methodology it developed in response to recommendations 1.1 through 1.3 and will continue monitoring and testing until the planned implementation date of July 1, 2014.</p>

Recommendation**Status/Additional Explanation****Sunset factor #2 The extent to which WIFA has met its statutory objective and purpose and the efficiency with which it has operated.**

WIFA should:

- Document, review, and approve policies and procedures governing access to its computer systems; and

- Review and approve policies and procedures governing changes to its computer systems.

Implemented at 6 months

WIFA developed and implemented board-approved policies and procedures governing access to its computer systems to ensure access is based on staff roles and responsibilities. The policies and procedures include a periodic review of employee user accounts to ensure access rights are commensurate with job responsibilities and employment status.

Implemented at 6 months

WIFA implemented policies and procedures governing changes to its computer systems and assigned primary and backup responsibilities to its information technology staff. WIFA's management approved these policies and procedures, which should ensure that changes to computer systems are appropriate and consistent.
