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OFFICE OF THE
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

June 30, 2016

The Honorable John Allen, Chair
Joint Legislative Audit Committee

The Honorable Judy Burges, Vice Chair
Joint Legislative Audit Committee

Dear Representative Allen and Senator Burges:

Our Office has recently completed an initial followup of the *Arizona Commerce Authority* (Authority) regarding the implementation status of the 18 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2015 (Auditor General Report No. 15-112). As the attached grid indicates:

- 3 have been implemented;
- 14 are in the process of being implemented; and
- 1 is no longer applicable.

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

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:ka
Attachment

cc: Sandra Watson, President/CEO
Arizona Commerce Authority

Arizona Commerce Authority Board of Directors

Arizona Commerce Authority Auditor General Report No. 15-112 Initial Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: Authority can more clearly present its impact on Arizona's economic development

1.1 To help ensure the Legislature and the public can clearly understand the Authority's economic development efforts and results, the Authority should enhance its reporting in the following three ways:

a. Ensure that it reports the cumulative progress it makes toward its three 5-year goals. For example, it could consider making its summary report that shows the cumulative progress made more readily available to the public by posting it on its Web site.

b. Clarify in its annual report and other reports it produces whether the information presented on jobs created, wages, and capital investment represents actual activity or commitments.

c. Develop a report or add information that it can legally report to its existing reports or Web site that better summarizes Arizona's total economic development investment costs and the benefits that the State received as a result of these expenditures. For example, the Authority's report could show by fiscal year the financial incentives Arizona committed to provide on a company-by-company basis along with each company's announced job creation and capital investment commitments. This report should also compare actual job creation and capital investment outcomes to those announced and update this comparison each year to show progress over time. For information that cannot be disclosed on a company-by-company basis, this comparison could be presented in aggregate by combining the information for all the companies to avoid any confidentiality issues.

Implementation in process

The Authority has included information about its three 5-year goals in two reports. Specifically, the Authority outlined its 5-year goals in a fiscal year 2015 summary report that it posted on its Web site. However, this report only shows the Authority's progress on these goals for 1 year, fiscal year 2015. This report does not show its cumulative progress toward its 5-year goals. In addition, although the Authority included cumulative progress on these goals in its fiscal year 2015 *Annual Report*, it shows the Authority's progress for 3 years, but does not compare this progress to its 5-year goals. According to the Authority, the information presented in its fiscal year 2015 *Annual Report* represents the portion of the 5-year goals it was expected to meet at 3 years. Auditors will determine whether the Authority presents additional information regarding its cumulative progress toward its 5-year goals during the 18-month followup.

Implemented at 6 months

Implementation in process

The Authority included several additional tables in its fiscal year 2015 *Annual Report* that provide more information on Arizona's economic development investment costs and the benefits the State has received. For example, the fiscal year 2015 *Annual Report* includes information on projected and actual jobs, average wages, and capital investment on a company-by-company basis, when allowed. However, the report's tables show only the actual jobs created, average wages of jobs, and capital investment made compared to incentives awarded for 1 year, and do not show progress over time. In addition, the tables showing actual results do not include the projections as well, and thus they do not illustrate how actual results compare to projections. The Authority has published one annual report since the audit was completed in September 2015, and according to the Authority, it intends to include additional information in

Recommendation

Status/Additional Explanation

its next annual report. Auditors will assess whether the Authority includes cumulative progress and comparative information in its *Annual Report* during the 18-month followup.

1.2 To ensure compliance with statutory reporting requirements, the Authority should include in its annual Competes Fund report:

- a. Required information, such as jobs committed and created, for each grant recipient for the innovation and rural grants; and
- b. The median wage of the jobs each Competes Fund grant recipient created.

Implemented at 6 months

No longer applicable

Laws 2016, Ch. 114, amended A.R.S. §41-1545.04 to remove the requirement that the Authority report the median wage of the jobs each Competes Fund grant recipient created.

Finding 2: Competes Fund grant-selection processes generally align with statutes and best practices, but should be formalized and monitoring processes can be improved

2.1 The Authority should enhance its Competes Fund grant-awarding practices by:

- a. Developing and implementing, or continuing with its efforts to develop and implement, comprehensive written procedures for all of its Competes Fund grants;
- b. Training staff on these written procedures and ensuring that staff follow them; and
- c. Developing procedures detailing what documentation should be maintained in its files and a final verification process to ensure that all required documentation is in the grant recipient's file.

Implementation in process

The Authority has drafted the comprehensive written policies and procedures for all of its Competes Fund grants. According to the Authority, it is currently using these draft policies and procedures as of June 2016 and reported that they will be completed by the end of fiscal year 2016. Auditors will review the completion and continued implementation of these policies and procedures during the 18-month followup.

Implementation in process

According to the Authority, although it has not provided any formal training, it has been training staff on an ongoing basis about the audit findings and how it should change its processes in response to the recommendations. In addition, the Authority indicated it will conduct more formal summary training once the procedures are completed (see Recommendation 2.1a for more information).

Implementation in process

Based on auditors' review of the Authority's draft policies and procedures, they include information on what documentation should be maintained in the files and a verification process for ensuring files are complete (see Recommendation 2.1a for more information).

Recommendation

Status/Additional Explanation

2.2 The Authority should improve its monitoring of all Competes Fund grants by developing and implementing written policies and procedures for verifying grant-recipient-reported milestones and/or outcomes. These policies and procedures should:

- a. Specify what milestone and/or outcome information grant recipients should report;
- b. Indicate how the Authority should verify submitted information, including the independent sources the Authority should use to verify the reported information;
- c. Identify what information the Authority should document in files; and
- d. Specify that grant payments will not be made until the Authority completes and documents the verification process.

Implementation in process

The Authority has drafted comprehensive written policies and procedures for all of its Competes Fund grants. Based on auditors' review of the Authority's draft policies and procedures, they will specify the milestone and/or outcome information that grant recipients should report, include a checklist to use for verifying grantee report data and documents, identify what information should be documented in the Authority's files and a checklist to use for verifying that files have complete and accurate information, and indicate that an initial payment will typically be made once all required documents are received and subsequent payments will be based on successful completion of performance milestones.

Implementation in process

See explanation for Recommendation 2.2a.

Implementation in process

See explanation for Recommendation 2.2a.

Implementation in process

See explanation for Recommendation 2.2a.

2.3 The Authority should develop and implement policies and procedures for making changes to grant agreements to help ensure that it consistently addresses changes to the required outcomes specified in the agreements, such as changes in milestones or delays in meeting goals within the required time. These policies and procedures should include:

- a. How it will document the discussions, decisions, and any changes to the grant agreement in the grant files; and

Implementation in process

Based on auditors' review of the Authority's draft policies and procedures, they will include steps on how to manage any issues or changes related to grant agreements and a checklist that must be filled out for a variety of issues, such as a grantee failing to submit reports or exceptions to reporting requirements, and changes in grant milestones or delays in meeting goals (see Recommendation 2.2a for more information). These policies and procedures will require the checklist to be documented in its grant files.

Recommendation**Status/Additional Explanation**

- b. Steps for ensuring that grant recipients report milestone or outcome results or, when such results are not reported, exceptions to the reporting requirements are noted in the Authority's file.

Implementation in process

See explanation for Recommendation 2.3a.

Sunset factor #2: The extent to which the Authority has met its statutory objective and purpose and the efficiency with which it has operated.

1. The Authority should strengthen its conflict-of-interest practices by:

- a. Ensuring that all authority decision makers comply with its policy to review and sign conflict-of-interest policy acknowledgment forms annually; and

Implementation in process

Authority staff and board members signed conflict-of-interest acknowledgment forms for fiscal year 2016. Auditors will assess whether these forms are annually updated as required during the 18-month followup.

- b. Requiring judges for the innovation grants to sign and submit its policy acknowledgement form and disclose conflicts as required by its policy.

Implemented at 6 months

Sunset factor #4: The extent to which rules adopted by the Authority are consistent with the legislative mandate.

2. The Authority should continue with its efforts to adopt rules to administer research tax credits and for the Computer Data Center Program as required by statute.

Implementation in process

On October 2, 2015, the Authority adopted rules for the Computer Data Center Program and posted them on its Web site. The Authority also revised its application for the Research and Development tax credit program, which provides some temporary guidelines for the program. According to the Authority, it will adopt formal rules for the program in conjunction with the Arizona Department of Revenue. The Authority anticipates adopting the rules in early fiscal year 2017.

Sunset factor #5: The extent to which the Authority has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

3. The Authority should improve its compliance with the State's open meeting law by continuing to ensure its meeting minutes are available within 3 business days and including the required ADA statement related to reasonable accommodation on its meeting notices.

Implementation in process

The Authority developed new policies and procedures to help ensure compliance with ADA and draft meeting minute requirements. Auditors found that the Authority included the required ADA statement on two of the four agendas auditors tested. However, on two of the agendas auditors tested, although the Authority had the required statement, the Authority did not fill in a contact name or number for an individual to request reasonable accommodations. Auditors will review the implementation status of this recommendation again during the 18-month followup to ensure the Authority consistently demonstrates its compliance with open meeting law.