



September 21, 2015

Debbie Davenport  
Auditor General  
Office of the Auditor General  
2910 North 44<sup>th</sup> Street  
Suite 410  
Phoenix, Arizona 85018

RE: Performance Audit and Sunset Review of the Arizona Commerce Authority

Dear Ms. Davenport:

The responses of the Arizona Commerce Authority (the "Authority") to the findings and recommendations of the Final Performance Audit of the Authority are attached.

We again extend our thanks to the Auditor General team for its efforts during the Sunset Review process.

Sincerely,

Sandra Watson  
President & CEO

## FINDINGS AND RECOMMENDATIONS

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.

***Authority Response:*** *The finding of the Auditor General is agreed to and the recommendation will be implemented. The Authority has previously reported cumulative progress towards its goals through many channels, but will expand reporting of this information by including it in the Authority's Annual Report and by posting the report referenced in the recommendation on the Authority's website.*

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.

***Authority Response:*** *The finding of the Auditor General is agreed to and the recommendation will be implemented. The Authority believes that the Authority's stakeholders are familiar with the industry custom of reporting jobs and capital investment based on company projections. For example, in reporting on projects announced by Authority clients, the local press regularly reports the clients' jobs and capital investment projections for those projects. Nevertheless, the Authority will, wherever applicable in its reporting, make clear whether jobs and capital investment figures reported are based on projections or actual activity.*

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.

***Authority Response:*** *The finding of the Auditor General is agreed to and the recommendation will be implemented. The Authority notes that it annually publishes seven separate reports on individual incentives programs, as well as two additional reports (including the Authority's Annual Report) that include aggregate information*

about incentives awarded across all programs. However, the Authority will add information to the Authority's Annual Report, including company-by-company incentives information wherever permitted by statute, to make this information more readily accessible.

**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

**Authority Response:** *The finding of the Auditor General is agreed to and the recommendation will be implemented. Although the Authority does not agree that the recommendation reflects a matter of statutory compliance, the Authority will nonetheless provide the additional information to the extent it does not compromise sensitive company information.*

**b.** The median wage of the jobs each Competes Fund grant recipient created.

**Authority Response:** *The finding of the Auditor General is agreed to and the recommendation will be implemented. Although the Authority does not agree that this recommendation is a matter of statutory compliance, the Authority will provide the additional information to the extent it is available.*

**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.

**Authority Response:** *The finding of the Auditor General is agreed to and the recommendations will be implemented. The Authority notes most of the recommended steps were completed during the field work portion of the audit or soon thereafter.*

**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 submitted information should be verified, including the independent sources the Authority should use to verify the reported information;
- c. Identify what information should be documented in the Authority's files; and
- d. Specify that grant payments will not be made until the verification process is completed and documented.

**Authority Response:** *The finding of the Auditor General is agreed to and the recommendations will be implemented. The Authority notes that the information identified in item "a" is always made clear in grant agreements and/or reporting form templates, and that the information identified in item "d" is always made clear in grant agreements. Procedures relating to items "b" and "c" were updated during the field portion of the audit or soon thereafter.*

**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
- 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.

**Authority Response:** *The finding of the Auditor General is agreed to and the recommendations will be implemented.*

**1.** The Authority should strengthen its conflict-of-interest practices by (see Sunset Factor 2, pages 31 through 32):

- a. Ensuring that all authority decision makers comply with its policy to review and sign conflict-of-interest policy acknowledgment forms annually; and
- b. Requiring judges for the innovation grants to sign and submit its policy acknowledgement form and disclose conflicts as required by its policy.

**Authority Response:** *The finding of the Auditor General is agreed to and the recommendations will be implemented. Although the Authority has always required all staff and Board members to sign an acknowledgment of the Conflict of Interest Policy, the ACA will begin ensuring that such policy acknowledgments are updated annually. All staff acknowledgments have been updated for Fiscal Year 2016 and the Board acknowledgments are in the process of being updated.*

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 (see Sunset Factor 4, page 33).

**Authority Response:** *The finding of the Auditor General is agreed to and the recommendation will be implemented. The Computer Data Center Program rules process will be complete within days. Subject to the Authority obtaining an exemption from the prohibition on agency rulemaking, the University R&D rules will be adopted in conjunction with the Department of Revenue, mostly likely in Fiscal Year 2016. The Authority notes that these programs have been open to applicants despite the rules not having yet been promulgated.*

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 (see Sunset Factor 5, page 34).

**Authority Response:** *The finding of the Auditor General is agreed to and the recommendation will be implemented. The Authority's meeting notice template has been updated accordingly and staff members have been educated to always include the necessary language.*