ARIZONA Auditor General
Making a Positive Difference

Arizona Office of Economic Opportunity
Initial Follow-Up Report

The September 2022 Arizona Office of Economic Opportunity performance audit and sunset review found that the Office provides economic, demographic, and tax research and analysis for the State but lacked documentation of benefits received for payments made to Commerce Authority, and Arizona Finance Authority, a related entity, lacked oversight controls for some key activities increasing risk for errors and fraud. We made 9 recommendations to the Office and 15 recommendations to the AFA Board, and their status in implementing the recommendations is as follows:

Status of the Office's recommendations

In process	9

Status of the AFA Board's recommendations

Implemented	4
In process	10
No longer applicable	1

We will conduct a 24-month followup with the Office on the status of the recommendations that have not yet been implemented.

Finding 1: AFA Board had not implemented needed controls to properly manage and oversee some AIDA activities, resulting in increased risk for errors and fraud

1. The AFA Board should ensure the AIDA Board of Directors works with the AIDA's executive director and contractor to develop and implement written policies and procedures documenting a comprehensive system of internal controls for the AIDA consistent with GAO's best practices. These policies and procedures should outline specific control activities, including but not limited to:

    a. Outlining criteria the AIDA's contractor should use for negotiating conduit bond program fees with borrowers, including minimum and maximum fee parameters and the conditions under which fees may be waived, and developing a process to review and approve the fees negotiated by its contractor to ensure they are consistent with the criteria.

    Implemented at 12 months.

    b. Implementing processes to ensure the AIDA receives all fees owed to it, including monitoring the activities of its LLC.

    Implementation in process—The AIDA has developed processes to help ensure it receives all fees owed to it. For example, the AIDA has developed policies and procedures that include specific requirements for the negotiation and approval of fees to be charged to conduit bond program applicants. In addition, AIDA's June 2023 contract with its LLC prohibits the LLC from collecting fees and states that fees must be remitted directly to the AIDA. However, although the AIDA Board's April 2023 minutes indicate that AIDA staff provided the Board with a quarterly update on the collection of fees by, and payments to, the LLC, the AIDA has not developed policies and procedures for this activity or any other LLC monitoring activities. We will assess the AFA Board and AIDA's further development of and compliance with its policies and procedures for ensuring it receives all fees and monitors the activities of its LLC during our 24-month followup.

c. Separating responsibilities and/or implementing compensating controls for paying vendors, including ensuring that the AIDA's contractor is not responsible for executing payments to itself.

Implementation in process—The AIDA has developed various policies and procedures that incorporate controls for paying its vendors, including requiring AIDA's Chief Financial Officer's review of invoices and supporting documentation before authorizing payments to its vendors and contractors and specifying that its vendors and contractors cannot review and execute payments to themselves. The policies and procedures also include various controls as part of the process for paying vendors and contractors through a multistep review of submitted payment requests. We will assess the AIDA's compliance with its policies and procedures for paying vendors during our 24-month followup.

d. Reviewing invoices and supporting documentation before authorizing payment to vendors.

Implementation in process—See the explanation for recommendation 1c.

2. The AFA Board should reassign responsibilities or implement compensating controls to eliminate the AIDA executive director's competing interests related to approving payments to the AIDA's contractor.

Implemented at 12 months.

3. The AFA Board should ensure the AIDA Board of Directors documents its criteria for approving conduit bond projects for financing and requiring applicants to provide information about how their projects meet these criteria.

Implementation in process—The AIDA has developed policies and procedures that specify the criteria that it should consider and prioritize when approving conduit bond projects for financing. These criteria include prioritizing in-State projects and projects that provide long-term economic benefits and increased opportunity for Arizona citizens. However, the policies and procedures do not require applicants to provide information on how their projects meet these criteria. We will further assess the AFA Board and the AIDA's development and implementation of its policies and procedures during our 24-month followup.

Finding 2: Office lacked documentation of services received in exchange for payments made to Commerce Authority and may have allocated some of these costs to federal programs inconsistent with federal requirements

4. The Office should develop and implement processes to document and monitor the benefits and services that the Commerce Authority provides to the Office, including a process to track and document the time Commerce Authority staff spend on Office activities.

Implementation in process—The Office has established an interagency service agreement (ISA) with the Commerce Authority that includes a payment schedule specifying the amounts the Commerce Authority can charge the Office during a given fiscal year for the various types of services provided to the Office by the Commerce Authority, such as administrative and technical support. In addition, the Office has developed a process to track and document the time Commerce Authority staff spend on Office activities, although this process does not include tracking the specific service or technical support provided by Commerce Authority staff. We will further assess the Office's implementation of this recommendation during our 24-month followup.

5. The Office should annually evaluate and update its service agreements with the Commerce Authority to ensure that the costs it pays for Commerce Authority services is commensurate with the benefits and services it receives.

Implementation in process—As explained in recommendation 4, the Office has established an ISA with the Commerce Authority that includes a payment schedule specifying the amounts the Commerce Authority can charge the Office during a given fiscal year for the various types of services provided to the Office by the Commerce Authority, such as administrative and technical support. Additionally, the Office has established a policy that requires the Commerce Authority to specify its costs for providing administrative and technical services to the Office; however, it has not developed a process for ensuring that the cost it pays for Commerce Authority services is commensurate with the benefits and services it receives and then annually evaluating and updating its ISA accordingly. We will assess the Office's continued implementation of this recommendation during our 24-month followup.

6. The Office should ensure it complies with federal requirements for allocating costs to federal programs, including documenting that the costs it allocates to federal programs are in accordance with the benefits received by those programs.

   Implementation in process—The Office has developed a policy indicating that it will comply with federal requirements for allocating costs to federal programs. The policy further indicates that the Office will develop various processes that its staff must follow to help ensure compliance with federal requirements. Additionally, the Office provided an ISA it has with the Commerce Authority for the hiring of a vendor to perform work related to a federal program. The ISA specifies that the Office must review and approve all vendor invoices prior to paying the invoices. The Office reported that it plans to develop additional processes by the end of fiscal year 2024. We will further assess the Office's development and implementation of its policy and associated processes during our 24-month followup.

7. The Office should work with the Commerce Authority to develop and implement processes for establishing independence and separation between the 2 entities, consistent with their statutorily established structure as separate legal entities.

   Implementation in process—In June 2023, the Governor appointed a new director to oversee Office operations. The Office reported that its former director, who also serves as the Commerce Authority president and CEO, no longer has any Office-related responsibilities. Additionally, ISAs between the Office and the Commerce Authority now require their respective signatories to attest that the agreement is in their agencies' best interest. However, the fiscal year 2023 ISA was signed by Commerce Authority staff attesting to the best interests of both the Office and the Commerce Authority. We will further assess the Office's implementation of this recommendation during our 24-month followup.

Finding 3: Office did not comply with a key State conflict-of-interest requirement, increasing risk that employees and public officers had not disclosed substantial interests that might influence or could affect their official conduct

8. The Office should develop and implement conflict-of-interest policies to help ensure compliance with State conflict-of-interest requirements, including:

   a. Requiring employees/public officers to complete a conflict-of-interest form upon hire/appointment, including attesting that no conflicts exist, if applicable.

      Implementation in process—The Office has developed and begun implementing conflict-of-interest policies that require new employees to complete a conflict-of-interest form upon hire, including an attestation that no conflicts exist. However, although requested, the Office did not provide the conflict-of-interest form for 1 of 5 new staff members it hired between February through July 2023. Further, the Office's policies do not require its public officers, such as AFA Board members, to complete a conflict-of-interest form upon appointment. We will further assess the Office's implementation of this recommendation during our 24-month followup.

   b. Reminding employees/public officers at least annually to update their disclosure form when their circumstances change.

      Implementation in process—The Office updated its conflict-of-interest policy to require its finance manager to remind employees to update their disclosure forms at the beginning of each fiscal year and distribute an annual reminder to its employees to complete or update their conflict-of-interest forms in July 2023. However, the policy does not require a similar reminder for the Office's public officers. We will further assess the Office's implementation of this recommendation during our 24-month followup.

c. Storing all substantial interest disclosures, including disclosure forms and meeting minutes, in a special file available for public inspection.

Implementation in process—The Office updated its conflict-of-interest policy to require that all employee substantial interest disclosures are to be stored in a publicly available file. However, the Office has not established a similar requirement for its public officers. We will further assess the Office's implementation of this recommendation during our 24-month followup.

d. Establishing a process to review and remediate disclosed conflicts.

Implementation in process—The Office updated its conflict-of-interest policy to require its human resources director to review any employee substantial interest disclosures and make a determination as to what steps are needed to remediate the conflict. However, the Office has not established a similar process for its public officers. Additionally, the Office reported that as of July 2023, it had not received any substantial disclosures that would require this review. We will further assess the Office's implementation of this recommendation during our 24-month followup.

9. The Office should develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to all employees and public officers on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Implementation in process—The Office reported it provided conflict-of-interest training to its employees in August and September 2023, which included training on its updated policy, and requires staff to complete periodic conflict-of-interest training through the Arizona Department of Administration (ADOA). Although the Office provided documentation noting which employees attended the August and September 2023 trainings, it did not provide documentation on whether the trainings addressed how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities, and the trainings were not provided to the Office's public officers. We will further assess the Office's implementation of this recommendation during our 24-month followup.

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

10. The AFA Board should work with the AFA Executive Director and/or Office management to develop and implement internal controls consistent with the SAAM and GAO's best practices for the AFA's responsibilities related to the private activity bond volume cap allocation process. These internal controls should be documented in written policies and procedures and should include requirements and assign roles and responsibilities for:

a. Complying with the AFA's statutory requirement to annually transfer unencumbered monies to the Economic Development Fund.

Implementation in process—The AFA has developed policies and procedures for complying with the statutory requirement to annually transfer unencumbered monies to the Economic Development Fund and has identified the amount it needs to transfer to this Fund as of June 30, 2023. However, the AFA has yet to transfer these monies because of a delay in reassigning its Operating Fund from the Water Infrastructure Finance Authority (WIFA), which was previously part of AFA but has since been established as a separate entity. The AFA is working with ADOA to reassign the Operating Fund from WIFA to AFA. We will further assess the AFA Board's implementation of this recommendation during our 24-month followup.

b. Separating cash-handling responsibilities and monitoring the staff responsible for these activities, including handling and accounting for fee and security deposit monies, and regularly reporting the results of this monitoring to the AFA Board.

Implementation in process—The AFA has developed policies and procedures for processing bond-related fees and security deposits. These policies and procedures establish separate staff roles and responsibilities for reviewing, logging, and depositing checks; and reviewing and approving deposits. However, the AFA's cash-handling process and associated staff responsibilities are not fully reflected in its policies and procedures. For example, the Office's accountant is responsible for notifying the Arizona State Treasurer's Office that a deposit is ready for final approval, but this responsibility is not reflected in the policies and procedures. Additionally, the policies and procedures do not include a process for reporting the results of any monitoring to the AFA board. We will further assess the AFA Board's development and implementation of its policies and procedures during our 24-month followup.

11. The AFA Board should work with the AFA Executive Director, Office management, and the ADOA's General Accounting Office to ensure that it complies with all applicable reporting requirements related to fees and security deposits received through the private activity bond volume cap allocation process.

Implementation in process—As explained in Recommendation 10b, the AFA has developed policies and procedures for processing bond-related fees and security deposits. These policies and procedures align with SAAM cash-handling requirements, including requiring fee and security deposit information to be entered into the Arizona Financial Information System. However, the policies and procedures do not include a process for reporting to the AFA Board. Additionally, the policies and procedures do not include a process for ensuring AFA meets its statutory requirement to annually report revenues, expenditures, and program activity to the Legislature and the Governor's Office of Strategic Planning and Budget. We will further assess the AFA Board's development and implementation of its policies and procedures during our 24-month followup.

12. The AFA Board should ensure the AIDA conducts an analysis of the conduit bond program's operational costs to identify potential cost savings, including, but not limited to:

a. Evaluating if the costs of its existing contract are commensurate with the services and benefits provided by the contractor.

Implemented at 12 months—In June 2023, the AIDA entered into a new contract with its contractor that directly ties the contractor's compensation to the contractor's performance and provision of services for the conduit bond program rather than from the HomePlus program. Additionally, based on the terms and conditions of the new contract, the AIDA Finance Committee conducted an analysis to determine the cost savings the AIDA would have benefited from had the new contract been in effect in prior fiscal years. According to its analysis, if the new contract had been in effect, the AIDA estimated cost savings of approximately $5.6 million in fiscal year 2021, $6.1 million in fiscal year 2022, and $452,000 in fiscal year 2023.

b. Determining if using full-time professional staff to operate the conduit bond program could result in lower operational costs than using a contractor.

Implementation in process—Although the AFA Board and the AIDA reported that its contractor's expertise on conduit bonds would be too costly to replace if it transitioned this function to in-house, it provided some documentation indicating it transitioned some managerial and support services from the contractor to in-house staff, which it reported will result in lower operational costs. However, the AFA Board has not required the AIDA to conduct an analysis comparing the conduit bond program's operational costs managed by its contractor versus the costs of operating this program using in-house staff. We will again assess the AFA Board and the AIDA's implementation of this recommendation during our 24-month followup.

13. The AFA Board should ensure the AIDA uses the results of its cost analysis to take steps to ensure that the conduit bond program is operating at the lowest possible cost and that the AIDA is receiving the maximum possible value from its contractor.

Implementation in process—As explained in recommendation 12b, the AFA Board has not required the AIDA to conduct a cost analysis to help ensure that the conduit bond program is operating at the lowest possible cost. However, the AFA Board and the AIDA have taken several steps to reduce the costs of its conduit bond program contract by directly tying contractor compensation to the contractor's performance and provision of services related to the conduit bond program, as opposed to the HomePlus program, and transitioning certain managerial services to in-house staff that were previously performed by the contractor, such as handling and accounting for fee and security deposit monies. We will further assess the AFA Board and the AIDA's implementation of this recommendation during our 24-month followup.

14. The AFA Board should ensure the AFA transfers all unencumbered monies in the AFA Operations Fund at the end of each fiscal year to the Office's Economic Development Fund, as required by statute.

Implementation in process—As previously mentioned in recommendation 10a, the AFA developed policies and procedures to help ensure it transfers unencumbered monies to the Economic Development Fund at the end of each fiscal year and has identified the amount of unencumbered monies due to be transferred as of June 30, 2023. However, the AFA has not yet transferred the unencumbered monies in its Operating Fund to the Office's Economic Development Fund because of a delay in reassigning its Operating Fund from WIFA, which was previously part of AFA but has since been established as a separate entity. The AFA is working with ADOA to reassign the Operating Fund from WIFA to AFA. We will assess the AFA Board's implementation of this recommendation during our 24-month followup.

Sunset Factor 12: The extent to which the Office has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.

15. The AFA Board should ensure the AIDA, in conjunction with its cost analysis, evaluates the terms of the AIDA's existing contract with its contractor and determines whether the contractor's compensation should be based on the services it provides to the AIDA.

Implemented at 12 months—As explained in Recommendation 13, the AFA Board and the AIDA have taken steps to directly tie its contractor's compensation to the conduit bond program services the contractor provides.

16. The AFA Board should ensure the AIDA develops and implements a process to track the number and amount of fees the AIDA's contractor collects directly from conduit borrowers, such as by including a provision in the AIDA's contract with its contractor requiring the contractor to report this information to the AIDA Board of Directors in the monthly reports it submits to the Board.

No longer applicable—In June 2023, the AIDA entered into a contract with its contractor for the operation of the conduit bond program that specifies the contractor shall not collect fees from conduit borrowers.