







Arizona Office of Economic Opportunity

36-Month Followup of Sunset Review Report 22-113






The September 2022 Arizona Office of Economic Opportunity (Office) 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 the Arizona Commerce Authority (Commerce Authority), and the Arizona Finance Authority (AFA), a related entity, lacked oversight controls for some key activities increasing the risk for errors and fraud. We made 9 recommendations to the Office and 15 recommendations to the AFA Board.

Recommendation implementation statuses

Office's status in implementing 9 recommendations

Implementation status	Number of recommendations
 Implemented	1 recommendation
 Implemented in a different manner	1 recommendation
 In process	5 recommendations
 Not implemented	2 recommendations

AFA Board's status in implementing 15 recommendations

Implementation status	Number of recommendations
 Implemented	11 recommendations
 Implemented in a different manner	1 recommendation
 In process	1 recommendation
 No longer applicable	1 recommendation
 Not implemented	1 recommendation

We will conduct a 48-month followup with the Office and AFA Board on the status of the recommendations that have not yet been implemented.

Recommendations to the Office

Finding 1: AFA Board had not implemented needed controls to properly manage and oversee some Arizona Industrial Development Authority (AIDA) activities, resulting in increased risk for errors and fraud.

1. The AFA Board should ensure the Arizona Industrial Development Authority (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 the United States Government Accountability Office's (GAO) 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.
 - ▶ Status: **Implemented at 12 months.**
 - b. Implementing processes to ensure the AIDA receives all fees owed to it, including monitoring the activities of its LLC.
 - ▶ Status: **Implemented at 36 months.**

The AIDA has developed and implemented processes to help ensure it receives all fees owed to it. Specifically, as previously discussed in our initial followup, the AIDA developed policies and procedures that include specific requirements for the negotiation and approval of fees to be charged to conduit bond program applicants. In September 2025, the AIDA hired a full-time employee whose responsibilities include ensuring that AIDA receives all fees owed to it. Further, the AIDA also provided to us its internal tracking spreadsheet that it uses as of January 2026 to track the required fees from conduit bond program applicants, as well as from its LLC. The spreadsheet used by staff tracks the total fee amounts, the annual or semiannual timing of fee payments, invoice due dates, and when invoices were paid.
 - 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.
 - ▶ Status: **Implemented at 36 months.**

The AIDA has developed various policies and procedures that incorporate controls for paying its vendors, including requiring the AIDA's chief financial officer's (CFO) 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. Further, the policies and procedures require transactions of more than \$10,000 to also be reviewed and approved by the AIDA executive director. We reviewed a sample of 8 transactions of more than \$10,000 that the AIDA processed and paid between January 2024 and December 15, 2025, including 6 randomly selected transactions and 2 that were judgmentally selected because they were paid to the AIDA's prior contractor (see explanation for Recommendation 12b for more information about the AIDA terminating its vendor contract). We found that the AIDA followed its policies and procedures for paying the vendors we reviewed, including that all invoices had the required supporting documentation and were subsequently reviewed and approved by the AIDA's CFO and executive director.

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

- ▶ Status: **Implemented at 36 months.**

- See 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.

- ▶ Status: **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.

- ▶ Status: **Implemented at 36 months.**

- The AIDA has developed policies and procedures that specify the criteria that it should consider and prioritize when approving conduit bond projects for financing, including prioritizing in-State projects and projects that provide long-term economic benefits and increased opportunity for Arizona citizens. Additionally, as of December 2023, the AIDA's conduit bond application required applicants to provide information for how their projects meet these criteria. We reviewed all 3 conduit bond applications approved at the September 2025 AIDA Board meeting and found that the applicants used this application to provide information to the Board about how their projects met the AIDA's established criteria.

Finding 2: Office lacked documentation of services received in exchange for payments made to the 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.

▶ Status: **Implementation in process.**

The Office revised its policies in January 2025 for processing invoices related to interagency service agreements (ISAs) for administrative and technical services. Its policies require external entities, including the Commerce Authority, to submit invoices that include various information, such as a clear description of the services rendered, a breakdown of the hours worked by the entity's employee for each service provided, and the cost per employee. Further, effective April 2025, the Office entered into an updated ISA with the Commerce Authority that specifies the various types of services the Commerce Authority provides to the Office. However, we reviewed the invoices the Commerce Authority submitted to the Office from July 2024 through May 2025 for a total of approximately \$1.59 million and found that these forms did not track and document what specific services Commerce Authority staff provided or the hours spent on these services. The Office stated that it did not require the Commerce Authority to provide the required information due to staffing turnover and a change in Office leadership. In February 2026, the Office revised its invoice template for the Commerce Authority to include all required information and stated that, in addition to incorporating this template into its ISA, it would require the Commerce Authority to start using it immediately for reimbursements. We will further assess the Office's implementation of its policies and its new invoice template during our next 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.

▶ Status: **Not implemented.**

Although the Office entered into an updated ISA with the Commerce Authority effective April 2025, similar to our prior followup, 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. The Office stated it had not done so due to staffing turnover and a change in Office leadership. However, the Office reported that it hired a staff member in January 2025 with experience in managing grants at the federal and State level and planned to implement new procedures and update its ISA with the Commerce Authority to imbed a process for ensuring the costs paid to the Commerce Authority are commensurate with the benefits and services it receives. We will further assess the Office's implementation of its policies and its new invoice template during our next 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.

▶ Status: **Implemented in a different manner at 36 months.**

During the September 2022 audit, we found that because the Office lacked documentation supporting the amounts it paid to the Commerce Authority for administrative and technical services, it lacked documentation to support that the federal programs to which it allocated some of these costs received benefits in accordance with the costs charged to them, as required by federal regulations. As part of our responsibilities to report on the State's compliance with federal Single Audit requirements, we also reported a finding on these costs in the State's fiscal year 2021 Single Audit report's schedule of findings and questioned costs. However, starting in fiscal year 2025, the Office no longer uses federal monies and instead uses State monies from the Economic Development Fund to pay the Commerce Authority for its services. Further, the Office reported in the State's fiscal year 2024 Single Audit report that it had fully corrected the fiscal year 2021 Single Audit finding, and we performed follow up procedures as part of the State's fiscal year 2024 single audit and determined its response was reasonable.

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.

▶ Status: **Implemented at 36 months.**

As reported in our previous followup, in June 2023, the Governor appointed a director to oversee Office operations, and the Office reported that the former director, who also serves as the Commerce Authority president and CEO, no longer had any Office-related responsibilities. Additionally, the fiscal year 2025 ISA between the Office and Commerce Authority requires each entity's respective signatory to attest that the agreement is in their agencies' best interest. The Office's director and the Commerce Authority's president and CEO attested that the agreement serves the best interest of their respective agencies. The Office has also developed ISAs with other agencies for its operations, such as the Arizona Department of Economic Security for workforce programs and the Arizona Department of Administration for procurement services.

Finding 3: Office did not comply with a key State conflict-of-interest requirement, increasing risk that employees and public officers had not disclosed.

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.

▶ Status: **Implementation in process.**

The Office updated its conflict-of-interest policies to require both employees and public officers to complete disclosure forms upon hire or appointment, and it provided completed disclosure forms for all board members as of May 2025. However, we found that 2 of 40 Office staff as of May 2025 had not completed a disclosure form as required by Office policy, which included the prior director who left the position in August 2025. We will further assess the Office's implementation of its conflict-of-interest policy during our next followup.

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

▶ Status: **Implementation in process.**

The Office revised its conflict-of-interest policy in July 2024 to require it to remind employees and public officers at the beginning of each fiscal year, but no later than July 31, to complete or update their conflict-of-interest disclosure forms. However, the Office sent the annual reminder to employees in January 2025 and did not send the annual reminder to public officers until October 2025. We will assess the Office's implementation of its conflict-of-interest policy during our next followup.

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

▶ Status: **Implementation in process.**

The Office updated its conflict-of-interest policy in July 2024 to require both employee and public officer substantial interest disclosures to be stored in a special file available for public inspection. However, as of November 2025, the Office did not have any substantial interest disclosures to store in its special file. Given that there were no disclosures for us to review and to ensure consistent implementation, we will further assess the Office's implementation of this recommendation during our next followup.

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

▶ Status: **Implementation in process.**

The Office updated its conflict-of-interest policy in July 2024 to outline its remediation processes for both employees and public officers. Further, the Office updated its procedures to require supervisors to review disclosure statements and determine whether a potential conflict of interest exists and to work with the individual to develop a plan to manage any potential conflicts. The procedures require the plan to be developed within 5 business days of the disclosure and for it to go through a review and approval process with the Office's deputy director, human resources office, and general counsel. However, the Office reported that as of November 2025, it had not received any substantial disclosures that would require this review. Given that there were no disclosures for us to review and to ensure consistent implementation, we will further assess the Office's implementation of this recommendation during our next 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.

▶ Status: **Not implemented.**

The Office updated its conflict-of-interest policy in July 2024 to require public officers and employees to complete an annual conflict-of-interest training and the Office reported that employees and public officers complete this training through the Arizona Department of Administration. However, similar to our previous followup, the Office did not provide documentation on whether the training addressed a key component of this recommendation, which is how the State's conflict-of-interest requirements relate to its unique programs, functions, and responsibilities.

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 *State of Arizona Accounting Manual* (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.

▶ Status: **Implemented at 36 months.**

As discussed in our initial followup, the AFA has developed policies and procedures for complying with the statutory requirement to annually transfer unencumbered monies to the Economic Development Fund. We found that the AFA followed its procedures, including calculating the amount of unencumbered monies for fiscal year 2025 and completing the transfer in June 2025.

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.

▶ Status: **Implementation in process.**

Since our initial followup, the AFA updated its policies and procedures to further outline its process for receiving fees and security deposits and its requirements for receiving, handling, recording, and depositing checks. These policies and procedures require the separation of duties for reviewing, logging, and depositing checks, and reviewing and approving deposits. However, similar to the initial followup, the policies and procedures do not fully outline the AFA's cash-handling process. For example, the policies and procedures still do not indicate the accountant is responsible for notifying the Arizona State Treasurer's Office that a deposit is ready for final approval. Additionally, AFA's policies and procedures do not include a process for regularly reporting the results of any monitoring to the AFA Board. By not having adequate separation of cash-handling duties and monitoring and reporting requirements related to the AFA's private activity bond volume cap monies, the Office increases the risks of theft, loss, or misuse of these public monies. We will further assess the AFA Board's development and implementation of its policies and procedures during our next followup.

11. The AFA Board should work with the AFA Executive Director, Office management, and the Arizona Department of Administration's (ADOA) 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.

▶ Status: **Not implemented.**

As explained in Recommendation 10b, the AFA has further updated its policies and procedures for receiving fees and security deposits and its requirements for receiving, handling, recording and depositing checks. Although the AFA Board's January, March, and August 2025 meeting minutes indicate that the AFA executive director provided brief updates on the volume cap, the AFA Board has not established a formal process for ensuring that it complies with all applicable reporting related to fees and security deposits received through the private activity bond volume cap-allocation process. Similar to our initial followup findings, the AFA's policies and procedures do not include a process for reporting to the AFA Board, and they 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. Absent documented monitoring and reporting requirements related to the AFA's private activity bond volume cap monies, the AFA has an increased risk of theft, loss, or misuse of these monies. The AFA reported in February 2026 that it was developing a comprehensive reporting framework for all applicable reporting requirements related to fees and security deposits received through the private activity bond volume cap allocation process. We will further assess the AFA Board's development and implementation of its policies and procedures during our next 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.

▶ Status: **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.

- ▶ Status: **Implemented at 36 months.**

The AFA Board and the AIDA conducted an analysis of the conduit bond program's operational costs to identify potential cost savings, including comparing the costs of continuing its contract to hiring full-time professional staff. The analysis found that hiring full-time professional staff would result in cost savings, and the AIDA decided during its June 2025 meeting to create the new staff position and to terminate its current contract. According to AIDA, it filled the new position in September 2025 and terminated the contract in October 2025.

- 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.

- ▶ Status: **No longer applicable at 36 months.**

As explained in Recommendation 12b, the AFA Board and AIDA conducted a cost analysis, which resulted in the AIDA determining in its June 2025 meeting to hire a full-time professional staff member in September 2025 and terminating its current contract.

- 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.

- ▶ Status: **Implemented at 36 months.**

As explained in Recommendation 10a, the AFA followed its policies and procedures and transferred all unencumbered monies in the AFA Operations Fund to the Office's Economic Development Fund in June 2025, as required by statute.

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.

- ▶ Status: **Implemented at 12 months.**

As explained in our initial followup, the AFA Board and the AIDA took 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.

▶ Status: **Implemented in a different manner at 12 months.**

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.