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KATIE HOBBS
GOVERNOR

September 11, 2026

Elizabeth Kowalewski, MPA, CFE
Sikich
333 John Carlyle St. Suite 500
Alexandria, VA 22314

RE: Arizona Office of Economic Opportunity - Sunset Review Response

Dear Ms. Kowalewski,

The Office of Economic Opportunity (OEO) has reviewed and prepared its response to the performance audit and Sunset Review findings. On behalf of our leadership and staff, we appreciate the opportunity to provide this response and share the progress we are making.

We would like to express our appreciation to the team at Sikich for their professionalism, diligence, and constructive approach throughout this review process. Working alongside their team was a collaborative and positive experience, and we appreciate the insights provided to help strengthen our agency operations.

OEO views the report findings and recommendations as an opportunity to better serve Arizonans. We have already begun addressing the recommendations and look forward to completing the improvements outlined in the response explanations.

Sincerely,

Mary Foote
Principal Deputy Director

Enclosure: OEO Response to Audit Findings and Recommendations

Finding 1: Instead of preparing impact statements as required by statute, the Office summarizes State agency-provided information, risking the publication of inaccurate or incomplete economic information and calling into question the value of the estimated $32,800 that the Office spends on the activity annually

Office response: The finding is agreed to.

Response explanation: OEO serves as a regulatory economist for the Governor's Regulatory Review Council (GRRC), interpreting agencies' Economic, Small Business, and Consumer Impact Statements pursuant to A.R.S. § 41-1052 to ensure rulemaking aligns with sound economic principles. OEO will revise policies and procedures to improve its documentation of verification processes and analytical assessments of agencies' Economic, Small Business, and Consumer Impact Statements.

Recommendation 1: Develop and implement formal policies and procedures to prepare economic, small business, and consumer impact statements, to include required verification processes and analyses.

Office response: The audit recommendation will be implemented in a different manner.

Response explanation: OEO fulfills its statutory mandate under A.R.S. § 41-1052 by serving as a regulatory economist to review, verify, and interpret Economic, Small Business, and Consumer Impact Statements submitted by state agencies to the Governor's Regulatory Review Council (GRRC). OEO will revise policies and procedures to improve its documentation of verification processes and analytical assessments of agencies' Economic, Small Business, and Consumer Impact Statements.

Recommendation 2: When preparing economic, small business, and consumer impact statements, the Office should perform and document its independent analysis or verification of agency-provided information, supplemented with additional data and information.

Office response: The audit recommendation will be implemented in a different manner.

Response explanation: OEO will revise policies and procedures to improve its documentation of verification processes and analytical assessments of agencies'

Economic, Small Business and Consumer Impact Statements.

Recommendation 3: Track and document the hours spent preparing and reviewing economic, small business, and consumer impact statements to support transparency, accountability, and oversight of the Office's role in the rulemaking process.

Office response: The audit recommendation will be implemented.

Response explanation: OEO will implement a time and effort tracking process to document hours spent verifying and assessing agencies' Economic, Small Business, and Consumer Impact Statements.

Finding 2: The Office reimbursed one Quality Jobs Program grant recipient $5,522.39 in excess of the approved award amount of $170,000, resulting in disbursements outside the authorized project budget

Office response: The finding is agreed to.

Response explanation: OEO concurs with the finding. The $5,522.39 represented eligible, verified Quality Jobs Program activities supporting necessary operational requirements; however, payment was released prior to executing a formal administrative modification to adjust the award ceiling. To prevent recurrence, OEO will perform a review of active program files and reinforce pre-disbursement controls to ensure that an executed contract amendment is fully documented in the record prior to authorizing any payment that exceeds an established award limit.

Recommendation 4: Strengthen grant payment and monitoring procedures to ensure reimbursements do not exceed approved award amounts and project budgets.

Office response: The audit recommendation will be implemented.

Response explanation: OEO concurs with Recommendation 4 and will implement the recommended measures. OEO will reinforce internal operating procedures to ensure adherence to the Arizona Grant Management Manual and utilize AZ360 automated financial controls to block disbursements exceeding authorized limits unless a formal written amendment is fully executed and updated in the system.

Recommendation 5: Implement a review process to reconcile cumulative grant payments to the approved award amount before payment is issued.

Office response: The audit recommendation will be implemented.

Response explanation: OEO concurs with Recommendation 5 and will implement the recommended measures. Under the oversight of OEO Finance and Grant Management personnel, OEO will enforce a pre-payment review process utilizing a standardized pre-payment reconciliation tool to verify cumulative disbursements against approved award totals, project budgets, and AZ360 encumbrances before releasing funds. Any request exceeding approved limits will be held until an official contract amendment is fully executed, with completed reconciliation records maintained to document compliance.

Recommendation 6: Document a review of the $5,522.39 that was reimbursed in excess of the approved award amount and take appropriate corrective action, including consultation with legal counsel and recovery of monies, if necessary.

Office response: The audit recommendation will be implemented.

Response explanation: OEO concurs with Recommendation 6. OEO Finance and Grant Management personnel will conduct a formal review of the $5,522.39 reimbursement to evaluate expenditure allowability and alignment with Quality Jobs Program objectives. Based on the outcome of this review, OEO will consult with legal counsel as appropriate to determine and execute any necessary follow-up actions, including potential recoupment of funds, and will maintain complete documentation of the final review in the grant records.

Finding 3: The Office did not adequately monitor grantees' use of Microbusiness Loan Program grant monies, creating the risk that grant monies were used for unallowable purposes

Office response: The finding is agreed to.

Response explanation: OEO will implement a standardized grantee monitoring framework to utilize desk-review protocols, itemized reporting, and financial reconciliations, retaining all compliance evaluations in the grant records.

Recommendation 7: Conduct a review of Microbusiness Loan Program grant reporting for fiscal year 2025 to determine which grantees did not submit all progress and financial reports or submitted reports that did not comply with grant agreement and program requirements, and take appropriate corrective action, as needed.

Office response: The audit recommendation will be implemented.

Response explanation: OEO will review its inventory of performance and finance reports provided by contracted lenders received in FY2025 to execute appropriate corrective actions or outreach.

Recommendation 8: In conjunction with Recommendation 7, review reported Microbusiness Loan Program grant expenditures for fiscal year 2025 to determine whether grantees' reported costs were allowable and complied with loan limits, fee caps, use-of-funds restrictions, approved budgets, and program objectives, and take appropriate corrective action, as needed.

Office response: The audit recommendation will be implemented.

Response explanation: OEO will conduct a targeted expenditure review for FY2025 Microbusiness grants in conjunction with Recommendation 7. Evaluating records against the State of Arizona Accounting Manual (SAAM) and statutory grant guidelines, OEO will verify that reported costs complied with loan limits, fee caps, and use-of-funds restrictions. Should unallowable costs or non-compliant fee structures be identified, OEO will execute appropriate corrective actions, including consultation with legal counsel regarding recovery of funds if necessary, with all determinations fully documented in the grant records.

Recommendation 9: Utilize the processes to address Recommendations 7 and 8 to provide adequate oversight of the Microbusiness Loan Program grants for fiscal year 2026 and any subsequent years until Recommendation 10 has been implemented.

Office response: The audit recommendation will be implemented.

Response explanation: OEO will apply the monitoring, reporting, and expenditure verification processes established under Recommendations 7 and 8 to provide continuous oversight for FY2026 Microbusiness grants and subsequent cycles. OEO will utilize these standardized oversight procedures, itemized reporting requirements, and expenditure reviews to ensure grant funds strictly adhere to approved budgets, fee caps, and program restrictions, with all ongoing compliance activities fully documented in the grant records.

Recommendation 10: Revise and implement policies and procedures that require grantees to submit additional supporting documentation with their quarterly reports, with sufficient detail to enable the Office to assess compliance with loan limits, fee caps, use-of-funds restrictions, and approved budgets. These procedures should address appropriate corrective or enforcement actions, as necessary, to ensure compliance.

Office response: The audit recommendation will be implemented.

Response explanation: OEO will update and enforce standardized grantee reporting procedures requiring enhanced supporting documentation with periodic reports to verify compliance with loan limits, fee caps, use-of-funds restrictions, and approved budgets. These procedures will outline clear administrative options to address non-compliance, with all submission reviews fully documented in the grant records.

Recommendation 11: Perform and document timely follow-up actions to address identified deficiencies or instances of noncompliance.

Office response: The audit recommendation will be implemented.

Response explanation: OEO will establish a standardized tracking mechanism to perform and document timely follow-up actions whenever reporting deficiencies or non-compliance are identified. This process will track outstanding grantee non-compliance items, set target resolution timelines, and maintain records of technical assistance, corrective action plans, and final determinations in the grant files.

Sunset Factor 2: The Office's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

GADA did not include information about monitoring and oversight in loan agreements, creating the risk of noncompliance

Office response: The finding is agreed to.

Response explanation: The Greater Arizona Development Authority (GADA) is actively revising its template loan repayment agreements to mandate annual borrower compliance submissions, such as compliance certificates during active expenditure phases and annual financial audits throughout the agreement lifecycle. Furthermore, GADA has engaged qualified third-party compliance contractors to assist with continuing disclosures and ongoing oversight for prior and active obligations.

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Recommendation 12: Ensure that all Financial Assistance Program loan agreements explicitly define GADA's roles, responsibilities, and monitoring expectations, including specific oversight activities GADA will perform to monitor borrower compliance with statutory requirements, program terms, and allowable use of funds.

Office response: The audit recommendation will be implemented.

Response explanation: GADA is actively incorporating language into its standard Financial Assistance Program loan agreement templates to define the agency's roles, responsibilities, and statutory authority. These updated templates will clearly outline borrower reporting requirements, allowable use of funds, and the specific monitoring activities GADA and its compliance agents will execute.

Recommendation 13: Perform, document, and retain evidence of periodic oversight activities over Financial Assistance Program loan activities to assess compliance with statutory requirements, program terms, and repayment or performance expectations, and ensure that identified deficiencies are timely addressed through documented corrective actions.

Office response: The audit recommendation will be implemented.

Response explanation: GADA will formalize standardized operating procedures to perform, document, and retain evidence of periodic loan monitoring activities. Working in coordination with its third-party compliance contractors for continuing disclosures, GADA will systematically monitor borrower compliance certificates, progress updates, and financial audits, ensuring any identified deficiencies are addressed through documented follow-up actions maintained in the loan records.