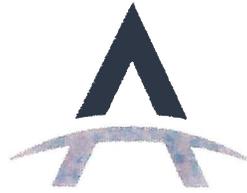


**DOUGLAS A. DUCEY**  
Governor



**GARY J. NAQUIN**  
Chairman

**DIRK SWIFT**  
Director

## Arizona Finance Authority

100 N. 7th Ave, Suite 130 | Phoenix, Arizona 85007 | [www.azfinanceauthority.com](http://www.azfinanceauthority.com)

September 28, 2022

### VIA ELECTRONIC MAIL ONLY

Lindsey A. Perry  
Auditor General  
Office of the Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Perry,

Thank you for the opportunity to respond to the information relevant to the Arizona Finance Authority (AFA) contained in your Office's recent performance audit of the Arizona Office of Economic Opportunity. As we previously discussed, the AFA Board appreciates the thorough review and helpful recommendations contained in the final performance review. Attached please find AFA's formal responses to the report. The AFA plans to promptly begin addressing identified issues and we look forward to sharing our progress at the agency's 6-month follow-up.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Gary J. Naquin', is written over the typed name below.

Gary J. Naquin, Chairman  
Arizona Finance Authority

Attachment

**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

**Recommendation 1:** The AFA Board should ensure the AIDA Board of Directors works with 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:

**Recommendation 1a:** 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.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA Board will ensure the AIDA Board of Directors works with 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, which will outline criteria the AIDA's contractor should use for negotiating conduit bond program fees with borrowers, and may include minimum and maximum fee parameters, will delineate the conditions under which fees may be waived, and will develop a process to review and approve the fees negotiated by its contractor to ensure they are consistent with the criteria.

**Recommendation 1b:** Implementing processes to ensure the AIDA receives all fees owed to it, including monitoring the activities of its LLC.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA Board will ensure the AIDA Board of Directors works with 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, which will outline processes to ensure the AIDA receives all fees and monies owed to it, including monitoring the activities of its LLC, and providing regular summaries of fees charged/received to the AIDA Board.

**Recommendation 1c:** 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.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA Board will ensure the AIDA Board of Directors works with 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, including 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. The AIDA Executive Director or appropriate delegate will authorize the wire transfer of the contractor's monthly payment to the contractor's bank account.

**Recommendation 1d:** Reviewing invoices and supporting documentation before authorizing payment to vendors.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA Board will ensure the AIDA Board of Directors works with 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, which will include a requirement that invoices and supporting documentation be reviewed (including supporting documentation, if applicable) before authorizing payment to vendors. The AIDA Executive Director, board officer or appropriate delegate will review and approve payment of vendor invoices.

**Recommendation 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.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA Board will ensure that the AIDA Board and the AIDA Executive Director amend the Executive Director's employment contract to eliminate any actual or perceived competing interests, in particular, any discretionary payment from the AIDA's contractor.

**Recommendation 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.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA Board will ensure the AIDA Board, the AIDA Executive Director and the AIDA's contractor work together to document the AIDA's criteria for approving conduit bond projects for financing and require applicants to provide information about how their projects meet these criteria recommends, which will include, among other things, (i) continued engagement by the AIDA Board of legal counsel to advise as to whether a project to be considered by the AIDA Board is eligible for bond financing under statute, (ii) requiring the contractor to continue charging a "State Benefit Fee" for each out-of-state financing to ensure the statutory requirement of the financing providing a benefit to the state is met, and (iii) possible revisions to the AIDA's Procedural Pamphlet, Bond Financing Application, and/or Board Memo format to further highlight these features.

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

**Recommendation 4:** The AFA Board should work with the AFA Executive Director and/or Office management to develop and implement internal controls consistent with 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:

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA Board will work with the AFA Executive Director and/or Office management to develop and implement internal controls consistent with GAO's best practices with respect to the AFA's responsibilities to receive volume cap-related fees and security deposits in the form of written policies and procedures, including assigning roles and responsibilities, if applicable, for consideration and adoption by the AFA Board. The method of allocation of volume cap itself is set forth in statute and will continue to be followed.

**Recommendation 4a:** Complying with the AFA's statutory requirement to annually transfer unencumbered monies to the Economic Development Fund.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The written policies and procedures referenced in Response explanation 4 above will assign responsibility to a specific person/people to confirm the required transfer is made each year.

**Recommendation 4b:** 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.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA Executive Director will work with OEO to develop and implement internal controls consistent with GAO's best practices with respect to the AFA's responsibility for handling and accounting for volume cap-related fee and security deposit monies. Status updates on volume cap fees/security deposits/refunds will be provided to the AFA Board not less than twice per year.

**Recommendation 5:** The AFA Board should work with the AFA Executive Director, Office management, and 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.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: To date all checks deposited by AFA and wires received by AFA with respect to volume cap fees and security deposits have been deposited into the AFA's Operations Fund with the State Treasurer's Office and accounted for in AFIS. The AFA Board will work with the AFA Executive Director, Office management, and 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.

**Recommendation 6:** 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:

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA Executive Director will recommend to the AFA Board and the AIDA Board engagement of an independent third-party to review operational costs of the AIDA's conduit bond program to identify potential cost savings.

**Recommendation 6a:** Evaluating if the costs of its existing contract are commensurate with the services and benefits provided by the contractor.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA Executive Director will recommend to the AFA Board and the AIDA Board engagement of an independent third-party to review operational costs of the AIDA's conduit bond program, including an analysis of the contractor's function and cost vs. benefits and results of services provided.

**Recommendation 6b:** Determining if using full-time professional staff to operate the conduit bond program could result in lower operational costs than using a contractor.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA Executive Director will recommend to the AFA Board and the AIDA Board engagement of an independent third-party to review operational costs of the AIDA's conduit bond program, including an evaluation of whether the use of full-time professional staff could result in lower operational costs than using a contractor and what, if any, expected effect such a change would have on revenues to be generated for the state.

**Recommendation 7:** 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.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA will ensure the AIDA Board considers the results of the independent third-party review of operational costs of the AIDA's conduit bond program vs. relative value/benefit received to ensure the conduit bond program is operated by the contractor at the lowest possible cost in order to generate the highest possible revenues for the state.

**Recommendation 8:** 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.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA Executive Director will work with OEO to develop and implement internal controls consistent with GAO's best practices to ensure unencumbered monies are transferred to OEO's Development Fund at the end of each fiscal year.

**Sunset Factor 12:** The extent to which the AFA Board 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.

**Recommendation 9:** 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.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA will ensure the AIDA Board considers the results of the independent third-party review of operational costs of the AIDA's conduit bond program vs. benefit received and evaluate the source of the contractor's compensation based on the services it provides to the AIDA.

**Recommendation 10:** The AFA Board should ensure 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 in its monthly report to the AIDA Board of Directors.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The AFA Executive Director will recommend to the AIDA Board that it develop and implement a process to track the number and amount of fees the AIDA's contractor collects directly from conduit borrowers, including reports to the Board of such results on a monthly or other regular periodic basis.