

Arizona Commerce Authority

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Performance Audit and
Sunset Review

September 2023
Report 23-116

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Auditor General’s mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

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September 29, 2023

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Ms. Sandra Watson, President & CEO
Arizona Commerce Authority

Transmitted herewith is the Auditor General's report, *Arizona Commerce Authority—Performance Audit and Sunset Review*. This report is in response to a December 17, 2020, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the Arizona Commerce Authority agrees with all the findings and plans to implement all the recommendations. My Office will follow up with the Arizona Commerce Authority in 6 months to assess its progress in implementing the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Arizona Commerce Authority Board of Directors

Arizona Commerce Authority (ACA)

ACA manages various business incentives; spent more than \$2.4 million hosting 5 private CEO Forums, reportedly to market Arizona to companies; and is at increased risk of fraud and waste of public monies because it lacked documentation it verified businesses met some requirements for nearly \$11 million in incentives

Audit purpose

To determine whether the ACA (1) verified businesses met certain tax credit and grant requirements before distributing monies or approving use of tax credits, (2) ensured that some Arizona Competes Fund grant applicants satisfied all requirements prior to awarding grants, and (3) established policies and procedures for awarding and monitoring broadband development grants; and to provide information related to the ACA's private CEO Forums and responses to the statutory sunset factors.

Key findings

- The ACA was established to help grow/diversify the State's economy; create jobs through expansion, attraction, and retention of businesses; and market the State for these purposes. The ACA administers various tax incentives and grants; manages the State's broadband and foreign trade offices; and hosts events for business executives.
- Statute and the ACA's grant agreements outline job creation/capital investment targets for businesses to qualify for tax credits and grant monies, but the ACA lacked documentation it verified business-reported information to ensure they met some targets before approving nearly \$11 million in incentives, increasing risk of fraud/waste of public monies.
- The ACA met some statutory objectives we reviewed but lacked statutorily required documentation from some grant recipients, guidance for evaluating grant applicants, and policies and procedures for administering nearly \$100 million for the Arizona Broadband Development Grant program, increasing risk for misuse and inaccurately accounting for and reporting on use of grant monies.
- The ACA spent more than \$2.4 million between 2018 and 2023 hosting 5 private CEO Forums that the ACA reported were marketing campaigns held around the Waste Management Phoenix Open (WMPO) golf tournament and the 2023 Super Bowl, attended by private sector executives, their spouses, and ACA staff.
 - As of June 2023, the ACA reported that 23 of the 118 companies whose executives attended the 2018 through 2023 private CEO Forums proposed potential nonbinding investment and jobs commitments in Arizona.
 - CEO Forum expenditures included items such as hotel rooms; transportation; suites at the WMPO; a Super Bowl sponsorship providing attendees access to Super Bowl LVII and related VIP events; food and alcohol; conference rooms for educational activities; various gifts such as hats and sunglasses; and opportunities to attend other events, such as a VIP nightclub/concert at the WMPO, and the Super Bowl Music Festival.
 - The ACA reported it consulted with in-house legal counsel and third-party attorneys on compliance of CEO Forums with State laws.

Key recommendations

The ACA should:

- Ensure tax credit and grant recipients meet all requirements by developing procedures for verifying recipient-reported information and documenting this verification prior to approving tax credits or distributing grant monies.
- Ensure adequate oversight of its Arizona Broadband Development Grant program.



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The Arizona Auditor General has completed a performance audit and sunset review of the Arizona Commerce Authority (ACA). This performance audit and sunset review determined whether the ACA (1) verified that businesses met all Quality Jobs tax credit or A1 grant requirements before distributing grant monies or approving businesses' use of tax credits, (2) ensured that some Arizona Competes Fund (Competes Fund) grant applicants satisfied all grant requirements prior to awarding these grants, and (3) established policies and procedures for awarding and monitoring broadband development grants. This report also provides information related to the ACA's private CEO Forums and responses to the statutory sunset factors.

ACA mission and responsibilities

The ACA was established by Laws 2011, 2nd Special Session, Chapter 1, §30, and according to Arizona Revised Statutes (A.R.S.) §41-1502(A), its mission is to provide private sector leadership in growing and diversifying the economy of this State; creating high-quality employment in this State through expansion, attraction, and retention of businesses; and marketing this State for the purpose of expansion, attraction, and retention of businesses. To help fulfill its mission, the ACA's various responsibilities and activities include:

- **Approving tax incentives for businesses**—The ACA administers 9 tax incentive programs required by statute. These tax incentive programs consist of tax credits and tax exemptions for individuals and businesses that engage in certain activities and investments in the State, such as investing in small businesses. The ACA is responsible for reviewing applications, assessing whether applicants meet eligibility requirements, and approving applicants for the tax incentive.¹ See Appendix A, Table 8, pages a-1 through a-3, for a listing of the 9 tax incentive programs and number and dollar amount of tax incentives approved under each program in fiscal year 2022. For example, A.R.S. §41-1512 established the Qualified Facility income tax credit, which provides tax credits to eligible applicants that make new capital investments in a qualified facility that pays at least 51 percent of net new full-time employees a certain percentage above the median wage for Arizona production occupations (see Sunset Factor 2, page 25, for more information on the Qualified Facility tax credit).² Additionally, A.R.S. §41-1525 established the Quality Jobs tax credit, which provides income or insurance premium tax credits to employers that create qualified jobs and meet certain wage requirements, job numbers, and capital investment thresholds (see Finding 1, pages 11 through 16, for issues we identified with the ACA's approval of Quality Jobs tax credits).

Key terms

Tax credit—An amount subtracted from the tax a taxpayer owes to the State.

Tax exemption—An amount of income or purchase excluded from taxation.

Source: Auditor General staff review of various ACA statutes and the glossary of terms posted on the Internal Revenue Service's website. Retrieved on 8/25/2023 from <https://apps.irs.gov/app/understandingTaxes/student/glossary.jsp#T>.

¹ Upon receiving ACA approval for the tax incentive, the business is responsible for claiming the tax credit or exemption on tax forms it files with the Arizona Department of Revenue. For at least 1 tax incentive program we reviewed, businesses may apply for a tax incentive for multiple years as allowed by statute. However, the business must annually apply for and the ACA must annually approve these incentives before they can be claimed by the business.

² According to the ACA, production occupations include various assembling, fabricating, and technical positions, such as machinists, welders, and water and wastewater treatment plant and system operators.

- **Administering grants to qualified businesses**—A.R.S. §41-1545.01 established the Competes Fund, and A.R.S. §41-1545.02 allows the ACA to award grant monies from the Competes Fund to businesses for attracting, expanding, or retaining Arizona basic enterprises and to small and rural businesses to enhance economic development.^{3,4} The ACA is responsible for awarding the following Competes Fund grants to qualified businesses:
 - **A1 Grants**—The ACA generally awards these grants, also known as deal-closing grants, to businesses that commit to bringing new quality jobs to and making significant capital investments in the State.⁵ This grant is not awarded through an application process; instead, the ACA’s CEO is statutorily authorized to offer these grants. Further, although statute does not specify dollar amounts or time frames for these grants, it does establish eligibility requirements, such as being a business in good standing, owing no delinquent taxes in the State, and requiring a signed statement from the ACA’s CEO assessing the direct impact of awarding the grant (see Sunset Factor 2, pages 26 through 28, for information on our findings related to the ACA’s compliance with these A1 grant eligibility and economic assessment requirements). Statute also requires the completion of a grant agreement for each business, including performance targets for making capital investments in the State and creating a specified number of new jobs in the State at a specified average annual wage. The ACA should distribute grant monies in installments upon verifying that the business has met performance targets specified in their grant agreements, and these monies may be distributed over a period of years (see Finding 1, pages 11 through 16, for more information on the ACA’s verification process). According to its fiscal year 2022 Competes Fund report, the ACA has awarded 49 A1 grants totaling more than \$71 million since the inception of the Competes Fund in fiscal year 2012, including 2 in fiscal year 2022. See Appendix B, Table 9, pages b-1 through b-4, for a list of A1 grants awarded in fiscal years 2016 through 2022 and active as of fiscal year 2022, including award amounts and associated job and capital investment information.
 - **Arizona Innovation Challenge Grants**—These grants are provided to start-up and early-stage companies through a business plan competition to advance innovation and the commercialization of new technologies and, according to the ACA, may not result in immediate job creation and capital investments. Companies must complete an application to be considered for this grant and meet certain criteria, such as being an existing, for-profit corporate entity with at least 2 but no more than 29 employees, and not have more than \$10 million in net assets. Additionally, applicants must be a business in good standing and owe no delinquent taxes. Applicants are selected after participating in 3 competitive rounds. In the first round, a panel of business-leader volunteers provides feedback on the application’s strengths and weaknesses and scores applicants based on criteria such as industry attractiveness, financial projections, and business model.⁶ About 25 businesses advance to the next round. In the second round, applicants have an opportunity to respond to the volunteers’ feedback, and a smaller panel of volunteers reviews this feedback to narrow the applicant pool. In the final round, 15 finalists pitch their business plans to a panel consisting of about 5-7 experienced entrepreneurs and investors. This final panel will then recommend 10 companies as Arizona Innovation Challenge grant recipients. These 10 companies are submitted to the ACA CEO for review and, if approved, these

³ Per A.R.S. §41-1545, “Arizona basic enterprise” means any enterprise located or principally based in Arizona that meets one or more of the following requirements: is primarily engaged in developing or producing goods or providing services for out-of-State sale, is the national or regional corporate headquarters of an Arizona basic industry or the corporate or regional headquarters of a multistate enterprise that is primarily engaged in out-of-State industrial activities, or is primarily engaged in one or more of the Arizona basic industries. Arizona basic industries include manufacturing industries identified by the North American Industry Classification System, and research and development of new products, processes, or technologies.

⁴ Per A.R.S. §41-2706, Competes Fund grants are not subject to the State’s granting requirements specified in A.R.S. §§41-2701 through 41-2706.

⁵ The ACA may also issue A1 grants to businesses for retaining existing Arizona jobs. See Appendix B, Table 9, footnote 2, page b-4, for an example of 1 retention grant active as of fiscal year 2022.

⁶ According to the ACA’s Arizona Innovation Challenge policies and procedures, it has a goal of 65 volunteers for its first-round panel so that each application is reviewed by a minimum of 6 judges. Further, the Arizona Innovation Challenge Program Manager is responsible for vetting these volunteers and providing training and judging guidelines to all volunteers.

companies are enrolled in a program with the goal of developing a stronger business model. Statute and grant agreements require these grantees to report whether they have achieved their performance targets and report on their operations and growth (see Sunset Factor 2, pages 29 through 30, for concerns we identified with the ACA ensuring applicants met Arizona Innovation Challenge eligibility and reporting requirements). According to its fiscal year 2022 Competes Fund report, the ACA has awarded 115 Arizona Innovation Challenge grants totaling more than \$23 million since the inception of the Competes Fund in fiscal year 2012, including 12 in fiscal year 2022. See Appendix B, Table 10, pages b-5 through b-8, for a listing of the Arizona Innovation Challenge grants awarded in fiscal years 2017 through 2022 and active as of fiscal year 2022.

- **Small Business Development Center Grants**—The ACA awards these grants to the Maricopa County Community College District, which then distributes the monies to other colleges around the State that host small business development centers. According to the ACA, these small business development centers are responsible for providing business counseling and training to small businesses to enhance economic development by improving business creation, location, and expansion activities for small and rural businesses. According to its fiscal year 2022 Competes Fund report, the ACA has awarded 4 small business development grants totaling more than \$1 million since the inception of the Competes Fund in fiscal year 2012, including 1 in fiscal year 2022.
- **Assisting Arizona entrepreneurs and rural and small businesses**—A.R.S. §41-1504(E)(2) requires the ACA to maintain staff to serve as advocates for small and rural businesses on economic development and regulatory matters in the State. To fulfill this requirement, the ACA reported it has established a Rural Economic Development Program team that is responsible for supporting communities State-wide. According to the ACA's fiscal year 2022 annual report, this team worked with 6 companies in fiscal year 2022 that committed to creating 4,176 new jobs in the State's rural communities including Casa Grande, Kingman, Page, Sahuarita, Winkelman, and Mohave County. The ACA also partners with the Arizona Department of Transportation to administer the Economic Strengths Program, which provides grant funding to counties, cities, and towns to advance transportation projects that will support regional and local economic growth. For example, according to the ACA, in fiscal year 2022, Bullhead City, Chino Valley, and Pinal County were awarded \$1.4 million in Economic Strengths Program grant monies to improve transportation infrastructure to help accelerate economic development in these areas.

Additionally, A.R.S. §41-1505 established the Rural Business Development Advisory Council (Council), which is responsible for advising the ACA's board of directors on rural business strategies, such as strategies for creating jobs, diversifying economies, and attracting new investment. According to the ACA, strategies include engaging with rural community business leaders to facilitate business expansion and partnering with the small business development centers in the State to provide resources to rural communities.

- **Managing the State's Broadband Office**—A.R.S. §41-1511 established the State Broadband Office within the ACA, which is responsible for coordinating the implementation of local, State, and federal broadband programs. The ACA's responsibilities include developing a State-wide broadband strategic plan, which includes strategies for implementing broadband infrastructure in the State to address connectivity needs of unserved and underserved communities. The ACA also provides grants to communities around the State for building and improving broadband infrastructure to help expand high-speed internet access across the State. To provide monies for these grants, effective January 2022, the ACA received approximately \$100 million in federal Coronavirus Capital Projects Fund monies through an interagency service agreement with the Governor's Office. In June 2023, the Governor announced Arizona will receive \$993.1 million in additional federal monies through the National Telecommunications Information Administration's Broadband, Equity, Access, and Deployment (BEAD) Program. The ACA reported that it worked with outside legal counsel with broadband and federal grant experience to help develop the grant application and assist with the grant award process. Although the ACA announced grant awards of nearly \$100 million in Arizona Broadband Development Grant monies in July 2022 and signed some grant agreements in August and September 2023, it has not established policies and procedures for the

grant program or reporting on the use of federal monies in the program (see Sunset Factor 3, pages 34 through 36, for more information on the State Broadband Office and concerns we identified with the ACA's administration of the Arizona Broadband Development Grant program).

- **Managing trade offices in other countries**—A.R.S. §41-1504 requires the ACA, at the direction of its Board, to establish and supervise the operation of offices in other states and foreign countries to expand direct investment in the State or export trade opportunities (trade offices). As of April 2023, the ACA contracted for a total of 7 trade offices, 3 trade offices in Mexico—1 in Guanajuato, 1 in Chihuahua, and 1 in Mexico City—and 1 trade office each in Frankfurt, Germany; Tel Aviv, Israel; Seoul, South Korea; and Taipei, Taiwan. The trade offices are primarily responsible for helping Arizona companies identify and execute trade opportunities in foreign countries and encourage foreign direct investment in Arizona by attracting foreign companies to locate operations to the State or invest in Arizona businesses (see Sunset Factor 2, pages 30 through 32, for concerns we identified with the ACA's oversight of 1 of its trade offices).
- **Assisting with workforce development**—According to the ACA, its workforce team is responsible for increasing the availability of skilled workers across the State by coordinating with industry and education partners to help facilitate the development of collaborative workforce solutions, such as education and training programs that are geared toward industry needs. For example, the ACA helped establish the Arizona Advanced Technology Network, a partnership between Maricopa County Community College District, Central Arizona College, and Pima Community College that developed industry-recognized curriculum for teaching skills needed for manufacturing jobs.
- **Administering programs promoting film production in Arizona**—The ACA administers 3 separate programs for promoting film production in Arizona. First, the ACA administers the Reel Savings Industry Discounts Program, which provides discounts and rebates to film production companies on various expenses, such as equipment rentals and hotels. Second, the ACA selects individuals to serve as film resource coordinators, who are individuals with knowledge of the State and can assist with film production needs, such as helping to secure permits and identify filming locations. In fiscal year 2022, the ACA reported it assisted 184 film and digital media projects in the State, including independent feature films, music videos, commercials, TV episodes, and documentaries. In addition, Laws 2022, Ch. 387, §1, established the Arizona Motion Picture Production Program to provide tax credits to motion picture production companies to promote the workforce development and expansion of the commercial motion picture industry in the State.
- **Assisting manufacturers operating in the State**—The ACA provides assistance through the Arizona Manufacturing Extension Partnership program, which provides business and operational support and consulting services to small and medium-sized manufacturers in the State.⁷ In fiscal year 2022, the ACA reported the Manufacturing Extension Partnership held 27 educational events for manufacturers and completed staffing projects that resulted in identifying and hiring 114 new employees for positions that manufacturers had difficulty filling.
- **Administering water infrastructure grants**—Laws 2022, Ch. 312, §1, established the Water Infrastructure and Commerce Grant Fund for eligible entities to contract for the design and construction of water infrastructure projects. As of June 30, 2023, the ACA had not yet awarded grants from this fund.
- **Administering a Major Events Fund to pay for costs associated with bidding on and hosting major events in the State**—Laws 2022, Ch. 308, §5, established the Major Events Fund to provide monies for the planning and operations of the competitive bid process for hosting major events in Arizona, grants to local organizing committees or equivalent organization for major event operating costs, and other economic development activities associated with major events. For example, the ACA spent more than \$1.9 million in fiscal year 2023 to pay the Arizona Major Events Host Committee's operating costs and,

⁷ The Arizona Manufacturing Extension Partnership is part of the national Manufacturing Extension Partnership program and is partially funded by the U.S. Department of Commerce's National Institute of Standards and Technology. The national network consists of manufacturing extension partnership centers in all 50 states and Puerto Rico.

according to the ACA, will support the April 2024 National Collegiate Athletics Association (NCAA) Men's Final Four basketball tournament being held in Arizona.

- **Hosting annual events for CEOs and other business executives**—According to the ACA, it annually hosts private CEO Forums, which it reported are direct marketing campaigns around major events in Arizona, such as the Super Bowl, targeted toward key decision makers from companies considering moving to or expanding their business operations in the State of Arizona (see Questions and Answers, pages 17 through 24, for more information on these events).

Organization and staffing

The ACA is governed by a Board of Directors (Board), which must be composed of 19 voting members, including the Governor, who serves as the chairperson of the Board; the ACA's Board-appointed CEO; 17 private sector business leaders appointed by the Governor and other State leadership; 12 ex officio nonvoting members; and 9 technical advisors (see textbox for additional information about the Board).⁸ The ACA is managed by its CEO, who serves at the pleasure of the Board.⁹

As of August 2023, the ACA reported it had 91 filled full-time equivalent positions (FTE), including its Board-appointed CEO, and 9 vacancies assigned to its various programs. According to the ACA, its operations are organized into the following 7 teams with the indicated FTEs and vacancies:

- **Business Development (21 FTEs and 0 vacancies)**—This team supports the growth and development of Arizona businesses and attracts new businesses to the State by identifying businesses looking to relocate or expand a project and identifying economic development resources to promote relocation or expansion to rural and urban communities across the State. This team also provides export assistance to Arizona manufacturers and manages the ACA's foreign trade offices and the ACA's film and digital media program.
- **Executive Initiatives (5 FTEs and 0 vacancies)**—This team includes the ACA's CEO and a team focused on public relations, governmental affairs, and stakeholder engagement.

ACA is governed by a Board of Directors

Voting members:

- Governor (Chair)
- ACA CEO
- 17 private sector business leaders¹

Nonvoting members:

- Speaker of the House of Representatives
- President of the Senate
- President of the Arizona Board of Regents
- President of each State university
- President of 1 community college
- Chairperson of the Governor's Council on Small Business
- Chairperson of the Governor's Council on Workforce Policy
- A member of the Rural Business Development Advisory Council
- President of the State-wide organization of incorporated cities and towns
- President of a State-wide organization of county boards of supervisors

Technical advisors to the Board:

- Arizona Department of Environmental Quality Director
- Arizona Department of Insurance and Financial Institutions Director
- Arizona Department of Revenue Director
- Arizona Department of Transportation Director
- Arizona Department of Water Resources Director
- Arizona Office of Economic Opportunity Director
- Arizona Office of Tourism Director
- Arizona State Land Commissioner
- Arizona-Mexico Commission Director

¹ The 17 private sector Board members are appointed as follows: 9 by the Governor, 4 by the President of the Senate, and 4 by the Speaker of the House of Representatives.

Source: Auditor General staff review of A.R.S. §41-1502.

⁸ As of June 2023, all 19 voting Board member positions were filled.

⁹ A.R.S. §41-1503.

- **Innovation (16 FTEs and 6 vacancies)**—This team manages the State Broadband Office and helps entrepreneurs create businesses, commercialize new technologies, and connect start-up companies with investors and potential corporate partners. This team also provides services to small business, including information on business licensing and advocating for programs to address the needs of small businesses in the State, such as the Small Business Digital Academy, which is a multiple-week course to teach small business owners how to use websites, social media, e-commerce, and analytical tools to help digitally promote their businesses. Additionally, this team is responsible for administering the Arizona Innovation Challenge, Small Business Development Center, and Arizona Broadband Development Grant programs.
- **Manufacturing (9 FTEs and 0 vacancies)**—This team administers the previously mentioned Manufacturing Extension Partnership, a federal program that provides business and operational support services to small and medium-sized manufacturers in the State, such as helping to develop marketing plans, identifying suppliers, and connecting manufacturers with workforce development programs to help hire and train employees.
- **Marketing and Communications (9 FTEs and 2 vacancies)**—This team is responsible for promoting the State to global businesses through a marketing strategy that includes targeted advertising, hosted events, trade shows, social media, and media engagements.
- **Operations (22 FTEs and 1 vacancy)**—This team is responsible for general operations functions, including accounting, information technology, procurement, and human resources. Additionally, this team is responsible for managing the ACA’s finance programs, including tax incentives and grants, such as the A1 grants.
- **Research (9 FTEs and 0 vacancies)**—This team includes both the Economic Development Research Team and the Arizona Competitiveness Team. The Economic Development Research Team is responsible for analyzing labor and economic data to compare the cost of doing business in Arizona to other states, researching international trade partners, and supporting marketing and communications efforts. The Economic Development Research team’s research is used in proposals for businesses looking to expand or move operations to the State. The Arizona Competitiveness Team is responsible for conducting detailed analysis of tax and policy data for Arizona and competitor states to determine how Arizona’s tax and incentive policies compete with other states. The Arizona Competitiveness Team is also responsible for conducting analyses in various areas, such as construction-related taxes, electric vehicle policies and incentives, and childcare policies.

ACA’s revenue and expenditures

As shown in Table 1, pages 8 through 10, the ACA has various revenue sources, including State General Fund appropriations, State lottery monies, and federal grants that totaled an estimated \$100.6 million in fiscal year 2023. The ACA’s revenues increased in fiscal years 2022 and 2023 for various reasons. Specifically, its State General Fund appropriation in fiscal year 2022 included a one-time \$50 million appropriation for its Competes Fund and in fiscal year 2023 included an appropriation of \$15 million for the Water Infrastructure and Commerce Grant Fund. Additionally, federal grants and other intergovernmental revenues totaled an estimated \$44 million for fiscal year 2023 and included \$30.65 million from the U.S. Department of Treasury for the State Small Business Credit Initiative.

The ACA estimated its fiscal year 2023 expenditures will total approximately \$47.3 million, consisting primarily of aid to organizations, professional and outside services, payroll and related benefits, and general operating and administration. Its fiscal year 2023 estimated expenditures represent an increase of approximately 32 percent from fiscal year 2022, with its professional and outside services having the greatest increase. According to the ACA, this increase included \$2.5 million for contract services, more than \$1.9 million for operating costs paid to the Arizona Major Events Host Committee, and \$1.3 million for workforce-related projects.

The ACA estimated it would have a \$202 million fund balance as of June 30, 2023. Monies in the Competes Fund and Arizona Innovative Accelerator Fund primarily account for this fund balance and are restricted to the

statutorily approved uses of these fund's monies. As such, the ACA's unassigned fund balance is an estimated \$4.8 million in fiscal year 2023.

Table 1
Schedule of revenues, expenditures, and changes in fund balance¹
Fiscal years 2021 through 2023
(Unaudited)

	2021 (Actual)	2022 (Actual)	2023 (Estimate)
Revenues			
Appropriations			
State General Fund ²	\$16,175,000	\$78,925,000	\$46,050,000
Arizona Lottery Commission ³	3,500,000	3,500,000	3,500,000
Intergovernmental ⁴	11,973,905	8,614,211	44,093,376
Charges for services ⁵	2,074,804	3,205,206	2,628,308
Interest income ⁶	434,578	589,739	4,097,009
Arizona Innovation Accelerator Fund loan program ⁷	349,177	193,513	91,441
Other	334,844	275,325	96,651
Total revenues	34,842,308	95,302,994	100,556,785
Expenditures and transfers			
Payroll and related benefits	9,069,721	9,436,179	10,660,444
Professional and outside services ⁸	9,333,731	6,555,444	12,467,575
Aid to organizations ⁹	15,105,710	13,779,149	15,861,958
General and administrative ¹⁰	5,271,776	6,030,219	8,306,916
Capital outlay	69,130		
Total expenditures	38,850,068	35,800,991	47,296,893
Transfers to the State General Fund ¹¹	672,864	12,362,580	17,211
Total expenditures	39,522,932	48,163,571	47,314,104
Net change in fund balance	(4,680,624)	47,139,423	53,242,681
Fund balance, beginning of year	106,308,310	101,627,686	148,767,109
Fund balance, end of year¹²	\$101,627,686	\$148,767,109	\$202,009,790

¹ Table 1 presents the ACA's financial information, except for the Arizona Coronavirus Relief Fund, which accounts for donations received to aid in the response and recovery efforts related to the COVID-19 pandemic but held by the ACA as a custodian. During fiscal years 2021 and 2022, the ACA received \$10.2 million from donations to the fund that were fully expended by the end of fiscal year 2022 (see Sunset Factor 2, page 26, for information about the ACA's responsibility for administering this Fund).

Table 1 continued

- ² The ACA received appropriations in fiscal years 2021 through 2023 from the State General Fund for various purposes including its operations, the Competes Fund, and trade offices. Changes in the State General Fund appropriations between fiscal years 2021 through 2023 were primarily because of the following additional appropriations:
- \$50 million was received in fiscal year 2022 for the Competes Fund, a fund established to provide grants to businesses for the purpose of attracting, expanding, or retaining businesses and to support programs and projects for rural Arizona and small business that enhance economic development. The appropriation was \$5.5 million for both fiscal years 2021 and 2023.
 - \$7.5 million was received in both fiscal years 2022 and 2023 for a newly created Major Events Fund, a fund established to provide monies for the planning and operations of the competitive bid process for hosting major events in Arizona, grants to local organizing committees or equivalent organization for major event operating costs, and other economic development activities associated with major events.
 - \$5 million was received in both fiscal years 2022 and 2023 for the Arizona Blockchain/Wearables Fund, which is to be distributed to applied research centers specializing in blockchain research, wearable technology, or a technology discipline within the ACA's targeted industries.
 - \$15 million was received in fiscal year 2023 for the Water Infrastructure and Commerce Grant Fund. This fund was established by Laws 2022, Ch. 312, §1, and is intended to provide water infrastructure grants to public service corporations acting on behalf of an employer with at least 250 employees and that are in a county with a population of more than 400,000 and less than 1 million.
- ³ The ACA received \$3.5 million from the State Lottery Fund for the Competes Fund in accordance with A.R.S. §5-572(F).
- ⁴ Intergovernmental revenues consisted of monies received from various federal grants and State agency agreements. For example:
- In fiscal years 2021 through 2023, the ACA received payments of approximately \$3.6 million, \$4.2 million, and \$5.3 million, respectively, from the Office of Economic Opportunity (Office) for charges and reimbursements for expenditures, including payments for administrative, technical support, and research services pursuant to an interagency service agreement. Our September 2022 audit of the Office found that it lacked evidence to demonstrate the benefits it received for more than \$260,000 it annually paid to the ACA for administrative and technical services in fiscal years 2020 through 2022 and further, had allocated some of these costs to federal programs potentially inconsistent with federal requirements resulting in a potential questioned cost of more than \$330,000 (see Arizona Auditor General report 22-113 *Arizona Office of Economic Opportunity—Performance audit and sunset review* and Arizona Auditor General report *State of Arizona: Report on internal control and compliance, year ended June 30, 2021*). In addition, during fiscal year 2021, the ACA received approximately \$1.59 million from the Office to reimburse the ACA for the Central Arizona College workforce training center expenditures it incurred. The ACA and Office entered an agreement where the Office agreed to pay up to \$1.65 million toward the workforce training center's project costs, including design and construction of the new training facility.
 - In fiscal years 2021 through 2023, the ACA reported it received \$2.9 million, \$1.1 million, and \$600,000, respectively, in federal monies from the U.S. Department of Labor's Workforce Innovation and Opportunity Act program, a program that serves individuals and helps employers meet their workforce needs.
 - In fiscal year 2021, the ACA received \$2 million from the U.S. Department of Treasury's Coronavirus Relief Fund, a program established to combat the effects of the COVID-19 pandemic.
 - In fiscal year 2023, the ACA received \$30.65 million from the U.S. Department of Treasury for the State Small Business Credit Initiative, a program to support small businesses and empower them to access the capital needed to invest in job-creating opportunities as the country emerges from the pandemic. The program was reauthorized and expanded by the American Rescue Plan Act.
- ⁵ Charges for services consist of various fees the ACA collects as required by statute, such as fees for processing applications and administering incentives and fees paid by private-sector entities related to the federal Manufacturing Extension Partnership program.
- ⁶ According to the ACA, the interest earned in fiscal year 2023 on State pooled monies deposited with the State Treasurer increased substantially.
- ⁷ Arizona Innovation Accelerator Fund loan program revenues are collections from loans made to small businesses to foster business expansion, capital investment, and job creation in Arizona.
- ⁸ Professional and outside services consisted of various services the ACA purchased, such as expending \$3.4 million in fiscal year 2021 for the design and construction of the Central Arizona College workforce training center. The ACA received reimbursement for these costs that were recorded as intergovernmental revenues (see footnote 4 for additional information). According to the ACA, its fiscal year 2023 expenditures also included more than \$1.9 million for operating costs paid to the Arizona Major Events Host Committee from its Major Events Fund, \$1.8 million for broadband development contract services, \$1.3 million for workforce-related projects, and \$700,000 for State Small Business Center Initiative contract services (see footnote 2 for information on the Major Events fund).
- ⁹ Aid to organizations consisted of grants to various entities, primarily from the Competes Fund and the Arizona Job Training Fund. The Arizona Job Training Fund provided training and retraining for specific employment opportunities and new and expanding businesses; all monies in this fund needed to be expended by June 2022. According to the ACA, its fiscal year 2023 expenditures included a \$10 million grant paid to the local organizing committee from the Major Events Fund and other grants from its Competes Fund (see footnote 2 for information on the Major Events fund).
- ¹⁰ According to the ACA, the estimated general and administrative expenditures for fiscal year 2023 are higher than fiscal year 2022 expenditures primarily because of increased advertising expenditures targeting advance manufacturing companies and a refresh of its information technology equipment. Additionally, the ACA reported fiscal year 2023 estimated expenditures were higher because of increased travel and entertainment costs, including hosting events as the ACA continued to come out of the pandemic.
- ¹¹ Transfers to the State General Fund consisted of remaining monies in the Arizona Job Training Fund that were transferred to the State General Fund as required by Laws 2017, Ch. 307.

Table 1 continued

¹² The ACA's fund balances were composed of externally restricted, internally assigned, and unassigned monies. As of June 30, 2022, the externally restricted and internally assigned monies were primarily for the Competes Fund and Arizona Innovative Accelerator Fund, and approximately \$6.6 million was unassigned in fiscal year 2022 and estimated to be \$4.8 million in fiscal year 2023.

Source: Auditor General staff analysis of the ACA's fiscal years 2021 and 2022 financial statements audited by an independent certified public accounting firm and ACA-provided estimates for fiscal year 2023.



ACA lacks evidence showing it verified businesses met some requirements when reviewing and approving nearly \$11 million in financial incentives, increasing risk of fraud and waste of public monies

Statute and ACA’s grant agreements establish job creation and capital investment requirements that businesses must meet to claim tax credits and receive grant monies

The ACA is responsible for approving and/or providing financial incentives to qualifying businesses through its Quality Jobs tax credit and A1 grant incentive programs. Specifically:

- **Statute specifies Quality Jobs tax credit requirements**—As discussed in the Introduction (see page 1), the ACA is statutorily authorized to approve qualifying businesses to claim Quality Jobs tax credits if they have created a specified number of jobs paying a certain wage and make specified capital investments in the State outlined in statute (see textbox for examples).¹⁰ Prior to claiming a tax credit, businesses with qualifying projects must apply for and receive ACA approval for each year they certify they are eligible to claim this tax credit. Businesses can annually apply for ACA approval to claim a tax credit related to qualifying projects for up to 5 years. To claim a tax credit, businesses must provide information and supporting documentation to the ACA to certify that they have met the tax credit requirements, including documentation for the total number of qualified employment positions, average hourly wage and total compensation paid to employees in qualified employment positions, and capital investments made during the taxable year.¹¹ Upon receiving ACA approval for the tax credit, the business is responsible for claiming the credit on tax forms it files with the Arizona Department of Revenue.

Examples of Quality Jobs tax credit requirements by location:

The ACA may approve a business to claim a Quality Jobs tax credit if it meets certain statutory requirements. For example, a business in a:

- Rural location may be approved to claim a Quality Jobs tax credit if it creates 5 new jobs that pay at least 150 percent of the county median wage for the year and makes at least \$100,000 in capital investments in the State.
- Urban location may be approved to claim a Quality Jobs tax credit if it creates 25 new jobs that pay at least 200 percent of the county median wage for the year and makes at least \$500,000 in capital investments, such as monies spent on project-related physical assets like lease agreements and construction costs in the State.

Source: Auditor General staff review of A.R.S. §41-1525 and ACA tax credit files.

¹⁰ A.R.S. §41-1525.

¹¹ A.R.S. §41-1525(E)(3),(F). A.R.S. §41-1525(H) also requires the documents submitted to the ACA to contain either a sworn statement or certification, signed by an officer of the company under penalty of perjury, that the information contained is true and correct according to the best belief and knowledge of the person submitting the information after a reasonable investigation of the facts.

- ACA A1 grant agreements specify job creation and capital investment requirements**—As discussed in the Introduction (see page 2), the ACA is statutorily authorized to award A1 grants from its Competes Fund for attracting, expanding, and retaining Arizona basic enterprises, and it has generally issued A1 grants to businesses that commit to bringing quality jobs to and making significant capital investments in the State.¹² To do so, businesses must enter into grant agreements with the ACA requiring the businesses to meet various job and capital investment performance targets to receive distributions of grant monies.¹³ These performance targets are separately established for each business and typically include making capital investments of a specified amount in the State and creating a specified number of new jobs in the State at a specified average annual wage (see textbox for example). The grant agreement further defines a qualifying job as a permanent position filled for at least 90 days from job creation date by an Arizona resident legally authorized to work in the United States and may include an employee who transferred from another State.¹⁴ As further specified in the grant agreements, the ACA shall distribute grant monies upon receiving and verifying business reports demonstrating that the business has met performance targets specified in the grant agreement.

Example of A1 grant requirements

In fiscal year 2019, the ACA awarded a \$5 million grant to a business to operate a manufacturing facility in Arizona. The business committed to creating 2,185 jobs with an average annual wage of at least \$42,266 and making \$675 million in capital investments over more than 6 years in the State.

Source: Auditor General staff review of ACA A1 grant agreement.

Additionally, ACA policies require its staff to verify that businesses have met job creation and capital investment requirements before approving tax credits or distributing grant monies. Specifically, as part of its review of jobs created by businesses, the ACA should verify grantee- and taxpayer-reported wage information for a sample of employees against a tax form that businesses use for reporting wages to the Arizona Department of Economic Security. ACA policies also require staff to verify grantee- and taxpayer-reported capital investments by reviewing documentation, such as invoices, copies of canceled checks, bank statements, or completed wire transfers demonstrating the amount of capital investments. Finally, ACA policies require businesses to attest under penalty of perjury that information provided to the ACA is true and correct.

Despite ACA management assertion that reviews occurred, files lacked documentation to show staff verified some job creation and/or capital investment requirements before approving tax credits or paying grant monies, and staff reported they did not frequently conduct wage verifications for tax credits

The ACA files had documentation supporting that staff reviewed and/or verified some but not all job creation information provided by businesses for the Quality Jobs tax credits and A1 grants we reviewed to ensure businesses met job creation requirements before approving tax credits and paying grant monies. Additionally, for 1 of the Quality Jobs tax credits we reviewed, the ACA was unable to provide documentation indicating that the business met capital investment requirements prior to approving the tax credit. Specifically, the ACA:

- Reviewed most business-reported job creation information to determine that the reported wage information met requirements for 21 tax credits we reviewed but lacked documentation that its staff verified business-reported job creation information, as required by its policy**—Our review of

¹² The ACA may also issue A1 grants to businesses for retaining existing Arizona jobs. See Appendix B, Table 9, footnote 2, page b-4, for an example of 1 retention grant active as of fiscal year 2022.

¹³ A.R.S. §41-1545.02(A)(1).

¹⁴ The ACA's grant agreement requires jobs to be filled by employees who have not been employed by the business within 12 months of the Arizona job creation date unless the employee is relocated from another state.

a sample of 21 of 99 Quality Jobs tax credits totaling nearly \$7.5 million that the ACA approved in fiscal years 2021 and 2022 found that its staff did not consistently review the business-reported job creation information and further, did not demonstrate that it had verified business-reported job creation information for any of the 21 tax credits, as required by its policies.^{15,16} Specifically, to qualify for this tax credit, businesses must provide information and supporting documentation to the ACA regarding the total number of qualified employment positions, average hourly wage, and total compensation paid to employees in qualified employment positions, and ACA staff should review and verify this information, consistent with ACA policy. Our review of the 21 Quality Jobs tax credits files found that staff had reviewed the business-reported employee wage information to ensure the reported wages

met the required county median wage for 18 tax credit files. For example, some files included emails exchanged with the business to clarify business-reported information or a separate review document that highlighted the qualified employees. However, 3 files lacked documentation that staff had conducted this review. Additionally, ACA policy requires its staff to verify a sample of business-reported employee wage information against a tax form that businesses use for reporting wages to the Arizona Department of Economic Security. Although the ACA's CEO and Chief Operating Officer reported that staff verified the businesses' information in each of these 21 instances, none of the files contained documentation to support they did so, and ACA staff responsible for this process at the time of our review reported that they may verify the businesses' information but stated they do not frequently do so. Moreover, our review of a sample of employee employment and wage information for 16 of the 21 Quality Jobs tax credits originally selected found that 5 of the businesses reported at least 1 employee for which we could not verify the business-reported wage information using the tax form.¹⁷ For example, 2 businesses had 1 employee each who were not listed on the tax form, and 1 of the businesses had an employee whose wage on the tax form was 50 percent lower than the business-reported wage information. Although there could be a variety of reasons for the differences, despite our repeated requests, the ACA did not provide any documentation demonstrating that it identified or investigated the reasons for the differences.



The ACA lacked documentation showing it verified job creation requirements were met prior to approving 21 Quality Jobs tax credits totaling \$7.5 million.

- **Approved 1 business for a tax credit despite lacking documentation demonstrating the business met capital investment requirement**—The ACA approved 1 business for a \$306,000 tax credit in fiscal year 2021 that was required to make at least \$5 million in capital investments in the State, including construction costs for improvements at the approved project location. However, none of the documentation the ACA provided from its review and approval of the tax credit, such as invoices and/or business property tax statements that show the business's reported acquisition of assets, demonstrated the business met this requirement.¹⁸

¹⁵ We reviewed a sample of 21 of the 99 Quality Jobs tax credits approved in fiscal years 2021 and 2022, including 13 that were randomly sampled and 8 that were judgmentally selected. We judgmentally selected 8 tax credits we considered to be high-risk because the associated taxpayer was in the news for financial-related concerns or a Board member disclosed they or a family member worked for the business applying for the credit. For those sample items where a Board member disclosed a conflict, ACA documentation indicates that these Board members did not participate in the approval process.

¹⁶ A business can be approved for the Quality Jobs tax credit over multiple years and for multiple projects, such as establishing businesses in different locations.

¹⁷ Of the 21 Quality Job tax credits described in footnote 15, we reviewed a random sample of 5 employees each from 16 of 21 tax credits for a total of 80 employees and compared the business-reported employee wage information against the tax form the business used for reporting wages to the Arizona Department of Economic Security. We could not perform this analysis for the remaining 5 of 21 tax credits because the ACA provided the incorrect tax form or the business-reported employee wage information lacked employee names for comparing to the tax form.

¹⁸ After we brought this to the ACA's attention on September 12, 2023, the ACA reported on September 25, 2023, that it obtained additional documentation that we will review during our followup.

- Lacked documentation demonstrating that it verified 4 businesses we reviewed met some applicable A1 grant job creation requirements before paying more than \$3.4 million in grant monies to the businesses between fiscal years 2018 and 2021**—Our review of a random sample of 4 of 28 businesses with an active A1 grant agreement as of fiscal year 2022 found that the ACA lacked documentation demonstrating it verified the 4 businesses met some applicable job creation requirements outlined in their grant agreements before paying more than \$3.4 million to these 4 businesses.¹⁹ Specifically, as shown in Table 2, the ACA lacked documentation or any other evidence that it verified the 4 businesses met the Arizona residency requirement; that employees in newly created jobs had been in these positions for at least 90 days for 1 business; and whether certain employees had transferred from other states for 2 businesses for which this requirement was applicable. We found that all 4 businesses met the average wage requirements specified in the grant agreements.

Table 2
ACA had average wage documentation for 4 businesses we reviewed but did not have documentation showing that it verified businesses met all applicable job creation requirements specified in their grant agreements

Documentation of key requirements:			
Average wage ¹	Arizona resident	Employed for 90 days	Transferred from another state
4 of 4	0 of 4	3 of 4	0 of 2 ²

¹ Although the businesses we reviewed met the minimum wage requirement specified in the grant agreement, we did identify some deficiencies with the ACA’s wage-verification process. See Sunset Factor 2, pages 28 through 33 for additional information and recommendations.

² The grant agreement requires jobs to be filled by an employee who has not been employed within 12 months of the Arizona job creation date unless the employee is relocating from another state. The ACA did not need to verify transfers for 2 of the businesses we reviewed because there were no employment dates within 12 months of the Arizona job creation date.

Source: Auditor General staff review of ACA grant files.

ACA’s lack of verification documentation increases risk of fraud and waste of public monies

The ACA’s lack of documentation to show that it verified businesses met job and capital investment requirements before approving tax credits and distributing grant monies increases the risk of fraud and waste of public monies. Specifically, businesses could submit fraudulent employment and wage information, thereby making the ACA more susceptible to fraud and waste of public monies. For example, in 2012, our special investigation of the Arizona Governor’s Office of Economic Recovery (GOER) found that an individual submitted falsified information, including creating fake jobs and salary listings, to claim \$250,000 in grant funding from GOER’s job creation fund, which was intended to reimburse the payroll expenses for companies expanding business operations in Arizona.²⁰ Our special investigation found that the GOER failed to perform and document adequate due-diligence procedures, including requesting and reviewing adequate documentation for verifying job creation and salary information, including from independent sources.

¹⁹ Originally, a random sample of 5 of 28 businesses with active A1 grants as reported in the ACA’s fiscal year 2022 Arizona Competes Fund Report were selected for review. Although all 5 businesses submitted information to the ACA requesting a portion of their grant monies, 1 of the 5 businesses had not received any grant monies at the time of our review because the ACA was awaiting the receipt of additional information from the business before making a distribution, so this item was excluded from our review of the ACA’s review and verification process

²⁰ See Arizona Auditor General report *Arizona Governor’s Office of Economic Recovery: Theft and Fraudulent Schemes*.

Additionally, by not ensuring businesses meet job and capital investment requirements, the ACA is at risk of inappropriately distributing grant monies or authorizing tax credits, resulting in the waste of public monies. For example, the ACA approved Quality Jobs tax credits totaling \$7.5 million to businesses based on self-reported job creation and employee wage information without consistently reviewing all reported information and verifying business-reported employee wage information prior to approving the tax credits. By not ensuring that these businesses satisfied the Quality Jobs tax credit requirements before approving the tax credits, the ACA is at risk of inappropriately approving tax credits that could result in a loss of tax revenues for the State.

Similarly, the ACA approved nearly \$3.4 million in A1 grant monies to 4 businesses we reviewed based on these businesses' self-reporting meeting all job creation requirements, but the ACA lacked documentation demonstrating it ensured that the businesses met various grant requirements pertaining to the jobs they created. As a result, the ACA is at risk of inappropriately distributing public monies to businesses not entitled to those monies.

ACA lacks oversight and accountability mechanisms for ensuring businesses meet job creation and capital investment requirements

According to the U.S. Government Accountability Office (GAO), oversight and accountability mechanisms for staff, such as policies and procedures, help ensure that agency operations are conducted in accordance with applicable laws and regulations.²¹ Although the ACA has established policies for reviewing and verifying capital investment and some job creation information reported by grantees and taxpayers before distributing grant monies and approving tax credits, the ACA:

- **Has not developed or implemented procedures for reviewing and verifying business-reported employment information for Quality Jobs tax credit recipients**—The ACA's policies require staff to review and verify business-reported employment information for Quality Jobs tax credit recipients but has not established documented procedures for doing so. According to the ACA, it has experienced staff turnover in positions with responsibility for reviewing and verifying business-reported employment information. The lack of procedures and staff turnover likely contributed to staff inconsistently documenting their review that business-reported employee wage information met the required county median wage and lacking documentation that they had verified employment and wage information to tax forms for any of the files we reviewed. Conversely, the ACA has established a process for documenting its staff's review and verification of a sample of employment and wage information for the A1 grants it administers (see Sunset Factor 2, page 28 and 29, for additional information about the ACA's wage verification process for A1 grants).
- **Lacks some oversight procedures for ensuring that businesses meet job and capital investment requirements**—Although ACA leadership reported that staff conduct supervisory reviews before approving tax credits and making grant payments, we did not see evidence of these reviews in the files we reviewed. Additionally, our review found instances where staff did not adhere to ACA policies and procedures for reviewing and verifying business-reported information. Further, its policies and procedures do not require supervisory reviews.
- **Has not developed or implemented procedures for ensuring that A1 grantees meet all applicable job creation requirements**—ACA policies and procedures do not require staff to ensure and document that the grantee has met the job creation requirements related to jobs filled by an Arizona resident or employee transfers from other states. As part of its review, the ACA could sample employees and request documentation that would demonstrate Arizona residency or proof that they transferred from another state.

²¹ GAO. (2014). *Standards for Internal Control in the Federal Government*. Washington, DC. Retrieved 8/10/2023 from <https://www.gao.gov/assets/gao-14-704g.pdf>.

Recommendations

The ACA should:

1. Ensure Quality Jobs tax credit recipients and A1 grantees meet all job and capital investment requirements by developing procedures for reviewing and verifying recipient-reported information, and documenting this review, prior to approving tax credits or distributing grant monies.
2. Revise and implement written policies, procedures, and guidance for reviewing and verifying all job creation information, including ensuring for all jobs the grantee reported it created in Arizona that:
 - All jobs have been filled for at least 90 days from the Arizona job creation date.
 - All filled jobs are held by Arizona residents.
 - Jobs filled by an employee within 12 months of the Arizona job creation date relocated from another state.
3. Develop and implement written policies and procedures for overseeing the review and verification of reported job creation and capital investment information, such as a supervisory review process, to ensure the review and verification of reported information is complete, documented, and accurate.

ACA response: As outlined in its [response](#), the ACA agrees with the finding and will implement the recommendations.



QUESTIONS AND ANSWERS

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As discussed in the Introduction (see page 5), the ACA reported that it annually hosts private CEO Forums targeted toward key decision makers from companies considering moving to or expanding their business operations in Arizona. This section provides information about the ACA's private CEO Forums, including answers to questions 1 through 7 above.

Question 1: What are the ACA's private CEO Forums, what benefits and activities do they include for attendees, and when do they typically occur?

According to the ACA, its private CEO Forums are direct marketing campaigns around major events in Arizona, such as the Waste Management Phoenix Open (WMPO) golf tournament held in late January or early February and the Super Bowl held in February 2023, targeted toward key decision makers from companies considering moving to or expanding their business operations in the State of Arizona. The ACA reported it identifies and invites select private sector executives and their spouses to these private CEO Forums to provide opportunities for them to interact with Arizona's government, industry, and university leaders and learn more about the value of doing business in the State. These private CEO Forums occur over multiple days and provide a variety of complimentary benefits and activities for attendees, including:

- **Educational activities**—Each of the 5 private CEO Forums we reviewed—2018, 2019, 2020, 2022, and 2023—included educational opportunities for attendees, such as speeches, presentations, and panel discussions from government and industry leaders in Arizona.²² For example, the ACA conducted

²² The ACA reported it did not hold a CEO Forum in 2021 due to the COVID-19 pandemic. When referring to the 5 years of CEO Forums, we will refer to the CEO Forums as being held in 2018 through 2023.

panel discussions with invited speakers who presented information on various topics of interest, such as Arizona's economy and workforce development, on mornings of the CEO Forum (see Appendix C, pages c-1 through c-7, for an itinerary for the 2023 CEO Forum). The 2022 and 2023 CEO Forum event speakers included the former or current governors, the cochair of the Board, and representatives from State universities. According to a CEO Forum itinerary, attendees were required to attend the educational activities in order to attend other activities at the CEO Forums, such as social activities, sporting events, and concerts.

- **Social and entertainment activities**—Each of the 5 private CEO Forums has been held around major sporting and entertainment events and provided attendees entry to these events and related events as well as food and alcoholic and nonalcoholic beverages. For example, the ACA's 2018, 2019, 2020, and 2022 CEO Forums included suite access for invited guests to the WMPO, an annual multiday golf tournament held in Scottsdale, AZ, and to attend related events; and the 2023 CEO event included suite access for invited guests to both the 2023 WMPO and Super Bowl LVII held in Glendale, AZ, and to attend related events. Attendees were also given the opportunity to attend concerts and other events. For example, attendees of the 2018, 2020, 2022, and 2023 CEO Forums were provided VIP tickets to the Birds Nest, an outdoor nightclub/concert venue next to the golf tournament where national acts perform over 4 nights during the WMPO. Additionally, attendees of the 2023 CEO Forum had suite access to the Super Bowl Music Festival. Further, attendees received different items at the CEO Forums. For example, attendees received Cardinals tickets at the 2023 CEO Forum. Further, the ACA purchased sunglasses, hats, and tote bags related to the 2018 CEO Forum and red wine and desserts for the 2019 CEO Forum (see Question 4, pages 20 through 22, for more information on what attendees received at the events and the cost of the events).
- **Lodging and transportation**—CEOs and executives and their guests who attended these private CEO Forums were also provided resort lodging in Arizona. For example, attendees stayed at the JW Marriott Camelback Inn during the 2019 CEO Forum event and the Arizona Biltmore—A Waldorf Astoria Resort during the 2023 CEO Forum event. Additionally, as part of these CEO Forums, attendees received in-State transportation to and from the activities, including car and motorcoach services.

The ACA reported it plans to host 2 additional private CEO Forum events in calendar year 2024—1 in February 2024 in conjunction with the WMPO and 1 in April 2024 in conjunction with the NCAA Men's Final Four basketball tournament.

Question 2: Why does the ACA host the private CEO Forums?

According to A.R.S. §41-1502(A), the ACA's mission is to expand, retain, and attract businesses to the State and market the State for purposes of expanding, retaining, and attracting businesses. The ACA reported that it hosts its private CEO Forums in pursuit of this mission. Specifically, the ACA reported that its private CEO Forums bring business executives to the State to educate them on Arizona and its business climate in an effort to convince them to move to, expand in, or invest in Arizona. The ACA further explained that its private CEO Forums can help it obtain investment commitments from companies whose executives attend and provide opportunities to have discussions with decision makers considering investing in the State (see Question 5, page 22, for more information on the ACA-reported proposed commitments made by the companies who attended previous private CEO Forums).²³

Question 3: Who attended the private CEO Forums in calendar years 2018 through 2023?

As previously mentioned, the ACA identifies and invites private sector executives and their spouses to the CEO Forums. The ACA reported it considers the following types of companies when determining which companies to invite to its CEO Forums:

²³ The discussions the ACA engages in are not legally binding, and as such, the plans asserted in these discussions can change.

- Companies evaluating multiple states to move or expand their operations.
- Companies considering expanding their operations and for which the ACA has a lead.
- Companies that are likely to move or expand operations based on various indicators such as rapid growth and/or media coverage exposing challenges in an existing location.

Additionally, according to the ACA, it invited venture capital firms to its CEO Forum for the first time in 2023 for the purpose of helping to facilitate capital investments in Arizona companies.²⁴ The ACA reported that it determined which venture capital firms to invite to the events by considering whether the firm had a track record of investing in the ACA’s targeted industries, such as electric vehicles and semiconductors; the venture capital firm’s reputation; and the amount of capital the firm had available to invest.

As shown in Table 3, in calendar years 2018 through 2023, the ACA hosted 136 executives and their spouses from 118 companies at its CEO Forums, and ACA records indicate these companies were in industries such as logistics, technology, and aerospace.

Table 3
ACA hosted 136 CEOs and executives from 118 companies between 2018 and 2023

Year	Number of CEOs/ executives hosted	Number of businesses represented
2018	16	13
2019	20	16
2020	18	15
2022	15	8
2023	67	66
Total	136	118

Source: Auditor General staff review of information provided by the ACA.

In at least 2 instances between 2018 and 2023, the ACA invited company executives to CEO Forums when it had already awarded the company a grant or approved a tax incentive prior to the CEO Forum. Specifically, in September 2017, a company signed a \$3 million A1 Grant award agreement that required it to create 1,027 new jobs that pay an average annual wage of \$74,196 and make capital investments of approximately \$24.6 million. Subsequent to the grant award, the ACA invited a company executive who attended the 2018 CEO Forum. Similarly, in 2020 the ACA approved a \$6.7 million Qualified Facility tax credit for a company and subsequently invited a company executive to attend the 2022 CEO Forum. According to the ACA, it may invite executives to the CEO Forums from companies that have already committed to a project in the State because the company is considering additional projects or the executive may be helpful to other attendees because they can speak about their experience with the ACA and the State.

The ACA also reported that some of its staff attended the WMPO and Super Bowl and associated events. For example, the ACA reported that 8 of its staff attended the 2023 WMPO, including its CEO, the executive vice president of business development, and 6 business development vice presidents who were each assigned to host CEO Forum attendees at the WMPO. Further, the ACA reported its CEO, 2 executive vice presidents, and 2 senior vice presidents attended the Super Bowl to host CEO Forum attendees at the ACA’s Super Bowl suite.

²⁴ Capital investments are expenditures for property and equipment for business operations, such as lease agreements and construction costs.

Question 4: How much did the private CEO Forums cost in calendar years 2018 through 2023, and what monies did the ACA use to pay for them?

In 2018 through 2023, the ACA spent more than \$2.4 million of public monies for the 5 private CEO Forums. Expenditures included items such as hotel rooms, transportation, suites at the WMPO and Super Bowl LVII including food and alcohol, conference rooms for educational activities, and various gifts such as hats, sunglasses, and tumblers. Table 4 below shows how much the ACA spent on the private CEO Forums, including educational events, transportation and lodging, and social and entertainment events for attendees.

Table 4
ACA spent more than \$2.4 million on CEO Forum education, transportation and lodging, and social and entertainment expenditures between 2018 and 2023

Event costs	2018	2019	2020	2022	2023
Educational events	\$11,186	\$12,889	\$23,879	\$17,122	\$ -
Social and entertainment events					
Super Bowl sponsorship package ¹					1,850,000
WMPO suite	46,000	50,000	50,000	40,000	102,600
Birds Nest VIP and other concert or theater tickets	9,150	-	7,620	4,832	20,356
Gifts/gift bags including sunglasses, sunscreen, water, hats, tumblers, red wine, and desserts	3,247	3,257	243	896	-
Total social and entertainment events	58,397	53,257	57,863	45,728	1,972,956
Transportation and lodging	20,421	22,169	22,658	13,372	114,606
Total event costs	\$90,004	\$88,315	\$104,400	\$76,222	\$2,087,562

¹ The Super Bowl sponsorship package includes both educational events and lodging. However, the agreement did not include itemized cost for these various items.

Source: Auditor General staff review of invoices, purchase orders, and agreements provided by the ACA.

Specifically, the ACA spent:

- **\$1.85 million on a Super Bowl LVII sponsorship package in 2023**—The ACA purchased a sponsorship package for Super Bowl LVII that provided marketing for the ACA, including advertising the ACA as a community partner on the Super Bowl Host Committee’s website and marketing the ACA’s small business and entrepreneurship programs to participants of the Business Connect program.^{25,26} As part of

²⁵ The Super Bowl Host Committee was responsible for planning Super Bowl LVII in Arizona.

²⁶ The Business Connect program is a program designed to promote equitable and inclusive procurement practices at NFL events.

the sponsorship agreement, the Super Bowl Host Committee also agreed to provide the following items to CEO Forum attendees:

- 140 tickets to the Super Bowl.
- 140 tickets to the Super Bowl VIP Tailgate Party.
- 140 tickets to the Super Bowl Experience.
- A party loft at the Super Bowl, including food and beverages for loft guests.
- Gift packages for event attendees, including 4 tickets and 2 premium parking passes to 1 Arizona Cardinals regular season football game.
- 70 hotel rooms at the Arizona Biltmore—A Waldorf Astoria Resort—for all event attendees.
- Events held at the Arizona Biltmore Resort, such as a hospitality lounge, planned dinner events, a welcome event with the Governor, and panel discussions with Arizona businesses.²⁷

Additionally, the ACA paid costs for attendees' admittance to the 2023 WMPO viewing suite and related events, in-State transportation to and from events, and additional items (see bolded bullets below and on the next page).

- **\$288,600 on viewing suites at the WMPO for 2018, 2019, 2020, 2022, and 2023**—Specifically, the ACA purchased suites on the 17th hole, costing between \$40,000 and \$102,600 per year.²⁸ According to the WMPO website, these suites typically include daily complimentary alcohol and other beverages; a daily complimentary breakfast buffet and lunch buffet; suite tickets for up to 34 people per day; an additional 20 general admission tickets per day; and 15 parking passes for each day of the WMPO.²⁹
- **\$193,226 on lodging, resort fees, and transportation within Arizona to and from the WMPO and related events in 2018, 2019, 2020, 2022, and 2023 and the Super Bowl and related events in 2023**—This included hotel rooms and resort fees for CEOs, executives, and their spouses. Additionally, according to ACA records, this transportation included car and motorcoach services, and most of the total—\$114,606—was for 2023 due to a substantial increase in number of attendees at the CEO Forum events compared to earlier years (see Sunset Factor 2, page 33, for issues we identified with its procurement of transportation services for the 2023 CEO Forum).
- **\$65,076 on educational events in 2018, 2019, 2020, and 2022**—These costs included conference rooms, audio equipment, and catering for ACA educational events at the resorts. For example, as mentioned in Question 1, this included speeches, presentations, and panel discussions from government and industry leaders in Arizona.
- **\$28,204 on tickets to the VIP Birds Nest outdoor concert/nightclub venue for the 2018, 2020, 2022, and 2023 WMPOs**—As previously mentioned, the VIP Birds Nest is a concert held at the WMPO. According to the Birds Nest website, VIP tickets include alcohol and other beverages, a catered buffet, and concert viewing.
- **\$10,000 on viewing suites for 2 concerts at the Super Bowl LVII Music Festival, which included beverages, including alcohol, according to the ACA**—Specifically, the ACA reported that it purchased 2 suites for 1 concert totaling \$40,000 and 1 suite for another concert totaling \$20,000 for a total cost of

²⁷ The agreement required the ACA to work with the Super Bowl host committee to develop a detailed agenda for the events at the Arizona Biltmore Resort.

²⁸ The ACA purchased 2 suites for the 2023 WMPO event.

²⁹ Although the ACA purchased suites at the WMPO for the entire event, it reported not using the suite for all days of the WMPO. For example, for the 2022 and 2023 WMPO, it sold or donated the suite for some days to other companies or nonprofit organizations.

\$60,000. The ACA also reported that it offered 2 local entities admittance to the suites to interact with the executives on different nights in exchange for reimbursing all or part of the costs of the suite(s). The ACA received \$30,000 and \$20,000 from each of these entities, respectively, resulting in the ACA spending \$10,000 on these viewing suites.

- \$9,030 on additional food, alcohol, and other items in 2018, 2019, 2020, 2022, and 2023**—Such costs included guided tours in 2018; attendee gift bags in 2018; Nike hats in 2018 and 2019; sunglasses in 2018 and 2019; sunscreen in 2018, 2019, and 2022; travel tumblers in 2019; red wine in 2019; additional food other than the catering in 2018 and 2020; and 8 Phoenix theater tickets to see *An American in Paris* in 2023.

The ACA paid more than \$2 million for the CEO Forums in 2020, 2022, and 2023 from its general operating fund, Donations Fund, and application fees fund. For example, according to the ACA, it paid \$27,152 from its Donations Fund for the 2022 CEO Forum and \$21,242 from its Donations Fund for the 2023 CEO Forum. Further, in 2023, the ACA used \$1.85 million from an ACA-administered fund within which it deposits tax credit and grant application fee monies to purchase the Super Bowl LVII sponsorship package for the 2023 CEO Forum shown in Table 4 (see page 20). The ACA deposits fees from several different grant and tax incentive programs into this fund, including a fee equaling 1 percent of its A1 Grant award amount and the application fees for the Qualified Facility and Quality Jobs tax credit incentive programs (see Introduction, pages 1 and 2, for more information about the ACA’s A1 Grant program and the Qualified Facility and Quality Jobs tax credits).

Question 5: What did the State receive in return for the public monies spent on the ACA’s private CEO Forums?

According to the ACA, its private CEO Forums help it to build relationships with companies and decision makers that may eventually make investment commitments in the State. As of June 2023, the ACA reported that 23 of the 118 companies whose executives attended the 2018 through 2023 private CEO Forums proposed potential, nonbinding investment and jobs commitments in Arizona. Table 5 provides information on these nonbinding proposals made by the 23 companies, including the potential number of jobs, reported average wage, and potential amount of capital investment. The ACA’s Chief Operating Officer also stated that the companies’ executives attending a CEO Forum were not the only reason for these companies proposing potential investments and jobs in Arizona, and that the ACA’s efforts to encourage companies to invest in Arizona generally include multiple conversations and/or interactions and in some cases, years of relationship building.

Table 5
ACA reported 23 companies who attended 2018 through 2023 CEO Forums proposed potential, nonbinding investments and jobs in Arizona as of September 2023

Year	Number of businesses	Total proposed, potential, nonbinding capital expenditures	Total proposed, potential, nonbinding jobs	Average salary range
2018	3	\$165,300,000	2,644	\$26,001 to \$73,242
2019	5	\$26,942,014	1,382	\$46,231 to \$153,954
2020	6	\$1,468,953,811	3,697	\$44,554 to \$116,500
2022	5	\$587,007,595	2,521	\$60,976 to \$122,238
2023	4	\$929,225,094	4,670	\$71,146 to \$110,000

Source: Auditor General staff review of information provided by the ACA.

Question 6: What are the ACA's policies for its private CEO Forums, and does it have to comply with the *State of Arizona Accounting Manual (SAAM)* requirements?

According to the ACA's COO, 2 of the ACA's policies guide the CEO Forums—its Travel and Entertainment Policy and its Gifts Policy. Regarding its Travel and Entertainment Policy, the policy stipulates that meals, incidentals, and entertainment expenses incurred by ACA officers or staff are reimbursable under certain circumstances, but expenses for the CEO Forums were not paid by individual ACA officers or staff, and therefore, reimbursements were not applicable.

Regarding its Gifts Policy, although almost all provisions in it pertain to ACA officers and staff receiving gifts, 1 provision applies to ACA not providing event attendees guidance about the appropriateness of attending ACA events and the second is regarding the value and approval of gifts ACA may provide to third-parties. The Gifts Policy does not require that the approvals by the Ethics Officer or COO be documented. The specified provisions of the Gifts Policy are as follows:

N. ACA Sponsored Events. In support of its mission, ACA may sponsor, co-sponsor or fund social events, trade delegations, meetings, or other functions. Although ACA may invite third parties, governmental officials, community and business leaders, and other members of the general public to attend such events, ACA will not provide guidance to such attendees as to the appropriateness of attending such events. Each third-party participant or invitee must determine based on applicable law, regulation, and internal policies as to the appropriateness of attendance. Any inquiries should be directed to the Ethics Officer. An ACA-sponsored event is not subject to the widely attended gathering criteria of this Policy and ACA Stakeholders may attend such events without first seeking approval through this Policy. ACA will comply with A.R.S. § 41-1231 in regard to events involving State of Arizona legislators.

O. ACA Gifts. In support of its mission, ACA may provide appropriate Gifts to third-parties not to exceed the Nominal Value unless a higher valued amount is approved by the Ethics Officer in advance of any purchase. Monetary Gifts are strictly forbidden under all circumstances. Any Gift must first be approved by the COO and take into account the customs of the third party, applicable laws and regulations, and the appropriateness of the event or meeting for which the Gift will be offered. As appropriate by protocol, ACA should inquire about the propriety of providing the gift to the third-party in advance of the event or meeting. Such Gifts cannot be provided to State of Arizona legislators. Rather, ACA will comply with A.R.S. § 41-1231 in regard to any such Gifts. This Policy does not cover incentives, grants, contracts, purchase of equities, or other significant investments by ACA in carrying out its statutory mission.

Although other State agencies must follow SAAM requirements, such as the Arizona Office of Tourism, which also markets the State of Arizona, A.R.S. §41-1504(l) exempts the ACA from following SAAM's requirements. SAAM governs various aspects of State agency accounting and internal control functions, such as travel and sponsorship requirements, and helps to ensure public monies are safeguarded and used for valid public purposes; reduces the risk of their misuse, loss, or theft; and helps ensure compliance with the State Constitution's prohibition on gifting public monies. The ACA's CEO Forums included costs for alcohol, which is prohibited for other State agencies by SAAM, and the ACA's Forum Events did not have to comply with SAAM's lodging rates with which other State agencies would have to comply. Specifically, SAAM prohibits State agencies from purchasing alcohol; the ACA's 5 CEO Forums included open bars with complimentary alcohol as well as additional purchases of alcohol. SAAM also requires that the public purpose for the provision of all food and beverages provided at State-sponsored events be documented before they are provided, which the ACA's Gifts Policy does not require. Further, in 2022, SAAM's Phoenix hotel rate limit was \$172 per night; the ACA spent \$277 per night per hotel room for the 2022 CEO Forum.

Question 7: Did the ACA assess whether hosting private CEO Forums using public monies complies with the Arizona Constitution's gift clause?

The Arizona Constitution's gift clause (Art. IX, §7) requires that the payment of public monies is for a public purpose, and the value to be received by the public is not far exceeded by the consideration being paid.³⁰ Therefore, an expenditure of public monies could violate the gift clause if (1) it did not have a public purpose or (2) the expenditure far exceeded the public benefit received in exchange for it.

The ACA reported that it consulted with in-house legal counsel since the private CEO Forums' inception and third-party attorneys to ensure these Forums comply with all State rules and regulations. As discussed earlier, the ACA reported that it connects business decision-makers with Arizona industry and State leaders to market Arizona's unique value proposition for the purpose of business expansion, attraction, and creation, and hosting private CEO Forums is central to the ACA's public purpose as defined in statute. The ACA further reported that the tens of thousands of jobs and billions in investment from companies that have participated in the CEO Forums far outweigh any minimal forum costs.

Consistent with our standard practice for assessing the applicability of the Arizona Constitution's gift clause and whether public monies were spent in accordance with the gift clause, we are forwarding this matter to the Arizona Attorney General's Office for further review.

³⁰ Arizona caselaw interpreting the Arizona Constitution's gift clause, Art. IX, §7, requires that payment of public monies is for a public purpose and the value to be received by the public is not far exceeded by the consideration being paid by the public. *Wisturber v. Paradise Valley Unified School Dist.*, 141 Ariz. 346, 678 P.2d 354 (1984), *Turken v. Gordon*, 223 Ariz. 342, 224 P.3d 158 (2010), and *Schires v. Carlat*, 250 Ariz. 371, 480 P.3d 639 (2021).



Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of the ACA. The sunset factor analysis includes additional findings and recommendations not discussed earlier in the report.

Sunset factor 1: The objective and purpose in establishing the ACA and the extent to which the objective and purpose are met by private enterprises in other states.

The ACA was established in 2011 to provide leadership in growing and diversifying Arizona's economy; create high-quality jobs through expansion, attraction, and retention of businesses; and market Arizona to expand, attract, and retain businesses.³¹ To meet its objective and purpose, the ACA offers financial incentives in the form of grants and tax incentives to qualifying applicants for the purpose of expanding, attracting, or retaining Arizona businesses and to small and rural businesses to enhance economic development. As previously mentioned in the Introduction, pages 2 and 3, the ACA administers 3 grant programs from its Competes Fund and 9 financial tax incentive programs (see Appendix A, pages a-1 through a-3, for more information on grants and tax incentive programs). Additionally, the ACA reported it has established business and workforce development programs to facilitate consulting and training services to Arizona businesses, employees, and individuals seeking employment. The ACA also reported it markets Arizona to businesses across the globe and communicates services and programs available to Arizona businesses. For example, the ACA reported it partners with organizations such as Mesa Community College, Boeing, and Amazon Web Services to provide training programs and certifications to individuals seeking employment. Finally, the ACA contracts with trade offices in Mexico, Germany, Israel, South Korea, and Taiwan to help Arizona companies by increasing trade in those countries and encouraging foreign investment in Arizona.

We reviewed 2 states—Georgia and Utah—and found that Georgia does not use private enterprises to meet its economic development objectives and purposes.³² Utah contracts with the Economic Development Corporation of Utah, a nonprofit organization that helps make connections with businesses and provides information on locations and economic incentives available to businesses.

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

The ACA has met its statutory objective and purpose for 2 of the programs we reviewed. Specifically, the ACA:

- **Appropriately approved Qualified Facility tax credits we reviewed**—As discussed in the Introduction, page 1, the ACA is responsible for approving businesses for tax incentives, such as tax credits and tax exemptions. Specifically, A.R.S. §41-1512 established the Qualified Facility income tax credit, which provides tax credits to eligible applicants that make new capital investments in a qualified facility that pays at least 51 percent of net new full-time employees a certain percentage above the median wage for Arizona production occupations. Our review of a sample of 10 of 29 Qualified Facility tax credit applications approved in fiscal years 2021 and 2022 found that all 10 recipients met the statutory requirements of the tax credit and were therefore appropriately approved by the ACA.

³¹ Laws 2011, 2nd S.S., Ch. 1, §30.

³² We selected these 2 states because the ACA identified them as competitors in its economic development efforts.

- **Distributed Arizona Coronavirus Relief Fund monies we reviewed for approved purposes—**
During the COVID-19 pandemic, the ACA administered the Arizona Coronavirus Relief Fund (Fund), which was established by former Arizona Governor Douglas Ducey to receive donations and provide financial support, or grants, to organizations working to mitigate the impact of the COVID-19 pandemic in Arizona (see textbox for the Fund's history). The Fund's revenues, which totaled more than \$10.2 million, consisted solely of donations from 88 individuals, organizations, and charitable trusts received from fiscal years 2020 through 2022. The committee was responsible for issuing monies, including grants, from the Fund to provide (1) personal protective equipment (PPE) for frontline medical personnel; (2) monies to nonprofits supporting vulnerable citizens in the State; and (3) technology to low-income students to enable them to transition to online learning.³³ From fiscal years 2020 through 2022, the committee approved and the ACA distributed grant monies totaling more than \$10.2 million to 94 organizations and agencies, including more than \$5.1 million to the Arizona Department of Health Services (ADHS) for PPE for frontline medical personnel.

History of the Arizona Coronavirus Relief Fund

The Arizona Coronavirus Relief Fund was created as part of Governor Ducey's Arizona Together plan to provide Arizona families and businesses with access to resources during the COVID-19 pandemic.¹ According to the ACA, the Governor created a committee of individuals (committee), including the ACA's CEO and representatives from different nonprofits, to evaluate needs, review requests for grant monies, and approve recipients to receive grant monies from the fund.

¹ According to the ACA, the fund was established in response to requests for assistance received by the Governor's Office from companies and individuals around the State. The ACA reported that the fund was established before the State was aware of the amount of federal monies it would receive in response to the pandemic.

Source: Auditor review of the Arizona Together website and information provided by the ACA

As shown in Table 6, page 27, our review of more than \$7.8 million of the \$10.2 million distributed from the Fund found that most of these monies were used for PPE for frontline medical personnel.³⁴ Additionally, our review of 15 grant awards totaling \$2.5 million to nonprofit organizations found that the ACA's grant award letters restricted the use of this grant funding and required grantees to maintain adequate records demonstrating how they used the grant funding they received. Additionally, the grant award letters we reviewed required the nonprofit grantees to provide the Fund with a report summarizing the use of the monies, as well as the impact of the grant on those served. All 15 nonprofit grantees reported on the use of monies, which included examples of direct assistance to individuals in need, such as food, water, and toiletries to homeless individuals and utility, rent, food, and telehealth assistance for families.

³³ According to the committee's funding eligibility guidelines, nonprofit organizations were required to spend 100 percent of grant monies directly on relief efforts and were prohibited from spending grant monies on administrative or management fees.

³⁴ To review the use of the Coronavirus Relief Fund monies, we obtained a list of expenditures made from the fund and identified a total of 94 received payments totaling approximately \$10.2 million in fiscal years 2020 through 2022. Approximately 95 percent, or \$9,673,976, of these expenditures were made in fiscal years 2020 and 2021; therefore, we reviewed all payments totaling \$75,000 or more made in fiscal years 2020 and 2021, which resulted in us reviewing approximately \$7.8 million of the \$10.2 million the ACA distributed from the fund. We then reviewed invoices, award letters, and other documentation provided by the ACA to determine why the monies were awarded and, as applicable, how they were used.

Table 6**Most of the \$7.8 million Arizona Coronavirus Relief Fund monies we reviewed were used to provide ADHS with PPE for frontline medical personnel**

Purpose	Total
Used by ADHS for Personal Protective Equipment (PPE) for frontline medical personnel	\$5,158,528
Awarded to nonprofit organizations that reported supporting the most vulnerable Arizonans through food banks, homeless shelters, domestic violence facilities, and other services	2,500,000
Used to provide low-income students with technology enabling them to transition to online learning ¹	161,895
Total	\$7,820,423

¹ This included equipment such as laptops, desktop computers, tablets, and monitors valued at \$82,000 to be used by the Arizona Department of Education to provide support for online learning.

Source: Auditor general staff review of a sample of grant award letters and invoices for \$75,000 or greater.

We also identified some areas where the ACA could better meet its statutory objective and purpose and/or improve its efficiency. Specifically, the ACA:

- Determined that A1 grantees we reviewed met various statutory requirements, but did not ensure that 1 grantee submitted documentation for 1 statutory requirement**—As previously reported in the Introduction, page 2, the ACA generally awards A1 grants to businesses that commit to making capital investments and creating new quality jobs in the State. Grant applicants must meet various statutory requirements to qualify for an A1 grant, including being in good standing under the laws of the state in which the applicant was formed or organized, having no delinquent taxes owed to taxing jurisdictions in Arizona, and providing health insurance to employees for which the grant applicant pays at least 65 percent of the premium or membership cost. Our review of a random sample of 5 of 28 A1 grantees active as of fiscal year 2022 found that the ACA ensured all 5 applicants were in good standing under the laws of the state in which the applicant was formed or organized. However, the ACA did not ensure that 1 of 5 applicants submitted documentation to show that it owed no delinquent taxes to Arizona taxing jurisdictions. Additionally, we found that the ACA relies on self-reported information to assess an A1 grant applicants' qualifications for meeting the health insurance premium or membership cost requirement. The ACA has not established a process for verifying applicant-reported health insurance premium or membership information. Further, although the ACA reported that it has an oversight process, such as a supervisory review, this is not documented in its policies and procedures, and there was no evidence of a supervisory review in the grant documentation we reviewed. Oversight processes, such as a supervisory review, could have identified that ACA staff had not obtained the necessary documentation for demonstrating no delinquent taxes were owed to Arizona taxing jurisdictions for the 1 A1 grantee for which this documentation was missing.
- Did not consider all statutory economic assessment requirements when approving A1 grant awards we reviewed, and lacked guidance for evaluating grant applicants**—A.R.S. §41-1545.02(E) requires the ACA to prepare a written statement, signed by the ACA's CEO, that specifically and in detail assesses the direct economic impact of an A1 grant applicant's proposed investment in the State before awarding the grant. Statute further requires that the written statement include evidence and reasons for determining that issuing the grant is in the best interest of the State, including the consideration of the estimated number and median wage of jobs to be created in this State by the applicant and the percentage of products and/or services estimated to be exported outside of the State during the applicant's first 5 years of operation. However, our review of a random sample of 5 of 28 A1 grantees active as of fiscal year

2022 found that the written economic impact statements for all 5 applicants did not include all statutorily required information. For example, contrary to State law, the ACA's guidance for grant applicants to provide information for its written economic impact statement requests average wage information for jobs to be created, which can be affected when a company has workers who earn wages that are substantially higher or lower than others, instead of median wage information for jobs to be created, or the wage at which half of the workers earn above this amount and the other half earn below. Additionally, we found that the ACA relies on self-reported information to assess the percentage of goods and/or services exported outside of the State in the first 5 years of operation and does not verify or corroborate this information with independent sources.

Additionally, ACA policy requires its staff to conduct research on each A1 grant applicant to identify both positive and negative publicly available information that could impact the ACA's decision to award a grant. To identify this information, ACA policy requires staff to conduct various web-based searches. Based on our review of research that ACA staff conducted, this information included allegations of misconduct, criminal incidents, and lawsuits. However, although it has established procedures for conducting due diligence, such as performing and documenting web-based and legal research, and the 5 A1 grant files we reviewed included various documents demonstrating that ACA staff had conducted some research related to the applicants, ACA policy does not specify how this information should be used and/or considered when reviewing the grant application and making an award decision. For example, for 1 grant recipient file we reviewed, the documented results of an online web search identified several criminal and civil incidents regarding the applicant and the applicant's parent company between 2014 and 2017, 4 of which occurred in 2017, the year the grant was awarded. Despite these concerning results, ACA staff awarded a \$3 million grant to the company, and it was unclear if and how the ACA used the results of its online web search when awarding this grant. According to the ACA, bad publicity does not mean an applicant should be denied a grant, and although the ACA did not provide documentation of how it used this information to assess the application, it reported that it did not disregard the information in its decision to award this particular applicant a grant.

- **Lacks documentation showing it verified businesses met some requirements when reviewing and approving nearly \$11 million in financial incentives and did not identify deficiencies with its job creation verification processes, increasing the risk of fraud and waste of public monies**—As discussed in Finding 1 (see pages 11 through 16), our review of a sample of 21 of 99 Quality Job tax credits totaling nearly \$7.5 million the ACA approved in fiscal years 2021 and 2022 found that the ACA's files lacked documentation to show that staff verified some job creation information and/or capital investment information. Specifically, the ACA's policy requires staff to verify business-reported wage information for a sample of employees against a tax form that businesses use for reporting wages to the Arizona Department of Economic Security. Although the ACA's CEO and Chief Operating Officer reported that staff verified the businesses' information in each of these 21 instances, none of the 21 tax credit files we reviewed included documentation that ACA staff had verified business-reported employee wage information against a tax form that businesses use for reporting wages to the Arizona Department of Economic Security, as required by its policy. The ACA also approved 1 business for a tax credit despite lacking documentation demonstrating the business met the capital investment requirement. Finally, our review of a sample of 4 of 28 businesses with an active A1 grant agreement as of fiscal year 2022 found that the ACA distributed more than \$3.4 million to 4 businesses but lacked documentation that the applicants met some applicable job creation requirements outlined in their grant agreements.³⁵ The ACA's failure to ensure businesses meet job and capital investment requirements before approving financial incentives increases the risk of fraud and waste of public monies. We recommended that the ACA establish processes for ensuring staff verify that businesses meet all job and capital investment requirements before approving financial incentives.

Additionally, although our review of monies distributed to 4 businesses with A1 grants did not identify instances where the average wage requirement was not met (see Finding 1, Table 2, page 14) we identified

³⁵ Please see footnote 19, page 14, for details about this sample..

the following 2 issues with the ACA's job creation wage-verification process that could increase its risk of incorrectly distributing A1 grant monies:

- First, as part of its review of jobs created by businesses, the ACA reviews the business-reported wages for a sample of employees against a tax form that businesses use for reporting wages to the Arizona Department of Economic Security. This review serves as a check to ensure that the wage reported on the tax form is consistent with the average wage information reported by the business. However, for 1 grantee we reviewed, the ACA used the incorrect tax form amount for 1 of the business-reported employees it sampled, resulting in the ACA erroneously determining a higher than actual average annual wage for this business.
- Second, although the grant agreements require businesses to create a specific number of jobs paying a specified average annual wage, our review found that the ACA did not consider the average wage of all jobs created, but instead considered the average wage of jobs it sampled during its verification process. Specifically, the ACA determined the average annual wage of a sample of jobs for the 4 businesses instead of all the jobs each business created as required by the grant agreement. For example, 1 business received more than \$1 million after reporting it met the requirements in its grant agreement for creating 300 jobs that paid an annual average wage of \$74,196. The ACA approved this distribution of monies based on assessing the average wage of a sample of jobs, which it determined was \$100,230. Although the average wage for all jobs reported by the grantee was \$75,538, which exceeded the grant requirement, by using a sample of jobs to determine whether the average wage requirement was met as opposed to all jobs, the ACA is at risk of incorrectly approving the distribution of monies to businesses that did not meet average wage requirements.

Although the ACA has developed some guidance for verifying compliance with wage requirements, this guidance is insufficient for ensuring grantee compliance with average wage requirements for all jobs created. Specifically, the guidance does not require ACA staff to use wage information for all jobs created to determine whether the grantee has met the average wage requirement. Additionally, as previously reported, ACA policy requires staff to compare a sample of grantee- and taxpayer-reported wages against wage information that employers provide on a tax form for consistency; however, policy does not define what is considered "consistent." ACA policy further requires a full review of employment and wage information if any issues are encountered but does not identify what types of issues would require staff to conduct a full review or what a full review should include. For example, our review of staff wage verification documents found instances where the wages from the tax form and the grantee-reported amount differed by 10 percent, but staff did not further investigate the difference in the 2 amounts. ACA staff reported it will conduct further analysis for those instances where the difference in the 2 amounts is greater than 10 percent but does not generally expand its sample or conduct a full review of all grantee-reported wages. Further, although ACA leadership reported its staff conducted a supervisory review, we did not see evidence of this in the files we reviewed, and the ACA's policies do not require a supervisory review to help ensure ACA staff have appropriately and accurately verified average wage information for jobs created.

- **Did not ensure Arizona Innovation Challenge grantees we reviewed met all eligibility requirements or annually reported on achievement of performance targets, increasing the risk of wasting public monies and making awards to ineligible applicants**—As previously mentioned in the Introduction, pages 2 and 3, the ACA provides Arizona Innovation Challenge grants to start-up companies through a competitive business plan competition that encourages the commercialization of new technologies and small business growth. ACA policies and/or its grant agreements require grantees to meet certain requirements to qualify for the grant, including providing a certificate of good standing from its state of formation and Arizona, and a certificate of no tax delinquencies issued by ADOR. Additionally, statute and grant agreements require grant recipients to submit 5 annual reports to the ACA, with the report in the first year including information on whether they have achieved performance targets established in their grant agreements, and reports in years 2 through 5 including information on their operations and growth.³⁶

³⁶ A.R.S. §41-1545.03 requires Arizona Innovation Challenge grant recipients to file an annual report in the initial grant award year, and the grant agreement requires annual reports in years 2 through 5.

However, our review of a random sample of 10 of 62 grants active as of fiscal year 2022 found that the ACA did not ensure 8 of 10 grantees met all eligibility requirements before awarding these grants or that these grantees annually reported on their achievements of performance targets after receiving grant monies as required by statute and the grant agreements. Specifically, the ACA approved 2 of 10 grants without obtaining a certificate of good standing and an additional 3 of 10 grants without obtaining a certificate of no tax delinquencies. Although ACA policy requires its staff to collect and maintain these documents, it has not ensured that staff follow this policy, such as through a supervisory review process. Absent this information, the ACA did not ensure that these 5 applicants met all the requirements for Arizona Innovation Challenge grants, which increases the risk of approving unqualified applicants for these grants.

Additionally, although all 10 grant agreements required grantees to submit annual reports in years 2 through 5 after receiving grant monies, the ACA did not obtain all required reports from 8 of 10 grantees, including the 5 grantees previously mentioned, that were required to file 1 or more reports during the time frame of our review, limiting the ACA's ability to assess grantees' achievement of performance targets.³⁷ According to the ACA, it lacks leverage to require annual reports from grantees in years 2 through 5 because grant monies are disbursed in the first year the grant is awarded. However, the ACA has continued to work with some of these grantees for other incentive programs. For example, 3 of 10 Arizona Innovation Challenge grantees we reviewed and did not meet the reporting requirements subsequently applied for and were approved for a Research and Development tax credit in fiscal year 2022. The ACA also reported it has considered grant clawbacks for grantees who fail to submit annual reports in years 2 through 5 but has not taken this action because they are in the early stages of development and have limited resources. Although the ACA reported following up with grantees to obtain the required reports, it did not provide any documentation demonstrating that it had done so, nor does it have policies and/or procedures for taking steps to ensure grantees submit required reports. ACA staff reported it has other procedures for tracking achievements and performance, such as running monthly reports on the grantee's progress, including its business location, but it could not provide these reports or documentation showing it tracks or uses this information. Absent this information, the ACA cannot ensure grantees maintain operations in the State for 5 years, as required by its grant agreements.

- **Despite establishing trade office contracts that are generally consistent with recommended practices, it did not address nonperformance for 1 contracted trade office that failed to meet fiscal year 2022 and 2023 performance measures**—As discussed in the Introduction, page 4, as of April 2023, the ACA contracts for 7 trade offices to help Arizona companies identify and execute trade opportunities and encourage foreign direct investment in Arizona.³⁸ Our review of the ACA's 3 trade contracts for its offices in Germany, Israel, and Mexico found that the ACA's contracts align with various contracting best practices recommended by the NSAA.³⁹ For example, consistent with NSAA recommended practices, all contracts we reviewed have provisions for termination, renegotiation, and price changes, and include performance measures. Performance measures and goals established by the ACA varied by trade office but include goals for the number of Arizona entities assisted, amount of export sales of Arizona goods/services, and the amount of foreign direct investment made in Arizona by attracting foreign companies to locate operations in Arizona (see Table 7, page 32, for the fiscal years 2022 and 2023 performance measure goals for the Germany, Israel, and Mexico trade offices). Further, the ACA requires its trade offices to submit weekly reports that include their progress in meeting contractual performance measures, provide information on any accomplishments, and outline barriers the trade office is facing. However, although the ACA reported it verifies some of the reported information, it did not provide auditors

³⁷ Our review of 10 grant agreements found that 2 of the grantees were awarded a grant in 2022 and were not yet required to submit a report at the time of our review.

³⁸ The ACA contracts for 3 trade offices in Mexico—1 in Guanajuato, 1 in Chihuahua, and 1 in Mexico City—and 1 trade office each in Frankfurt, Germany; Tel Aviv, Israel; Seoul, South Korea; and Taipei, Taiwan. The ACA has 1 contract for the 3 Mexico locations.

³⁹ National State Auditors Association (NSAA). (2003). *Contracting for services: A National State Auditors Association best practices document*. Lexington, KY. Retrieved 2/2/23 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2003_Contracting_Best_Practices.pdf.

with any documentation of its verification work and has not established policies and procedures for doing so.⁴⁰

According to the performance measure reports, the 3 Mexico trade offices' performance combined and the Germany trade office did not meet 1 of its performance measure goals in fiscal year 2022 but met or nearly met its performance measure goals in 2023, while the Israel trade office did not meet performance measure goals in either year (see Table 7, page 32, for trade office performance measure goals and outcomes for fiscal years 2022 and 2023).^{41,42} Specifically, as shown in Table 7, page 32:

- Mexico's 3 trade offices met its fiscal year 2022 combined performance measure goals for related export sales but did not meet its combined performance measure goals for number of businesses assisted. Our review of the performance measure goals for each Mexico location found that this was the result of Mexico City not meeting its goal for number of businesses assisted. The ACA attributed Mexico City's fiscal year 2022 nonperformance to the cancellation or postponement of trade shows and other events due to COVID-19 restrictions. The 3 Mexico trade offices' combined performance met 99 percent of both fiscal year 2023 related export sales and number of businesses assisted performance goals.
- Germany's trade office met its fiscal year 2022 performance measure goals for number of businesses assisted and number of foreign direct investment leads but did not meet its performance measure goal for related export sales. The Germany trade office contract was issued in January 2022, and the trade office did not operate for the full fiscal year; as shown in Table 7, page 32, the performance measure goals consider the partial year operation. According to the ACA, Germany's trade office did not meet its fiscal year 2022 performance measure for related export sales because it can take time for export sales to be realized, which is demonstrated in Table 7, page 32, when comparing Germany's fiscal year 2022 actual related export sales to those in fiscal year 2023. Germany's trade office exceeded its fiscal year 2023 performance measure goals for all 3 performance measures of number of businesses assisted, number of foreign direct investment leads, and related export sales.
- Israel's trade office exceeded its fiscal year 2022 performance measure goal for foreign direct investment leads but did not meet its performance measure goals for number of businesses assisted and related export sales. The Israel trade office also did not meet any of its fiscal year 2023 performance measures for number of businesses assisted, related export sales, and foreign direct investment leads. According to the ACA, the Israel trade office has difficulty meeting its performance measures because the country is smaller with fewer corporations as compared to the other countries where it has trade offices.

Contracting best practices recommended by the NSAA further state that contract monitoring is an essential part of the contracting process and should include ensuring deliverables are received, such as the performance measure goals described above; that payments to contractors are withheld until deliverables are received; and that contractor performance is evaluated and used for making future contracting decisions. However, despite the Israel trade office not meeting its fiscal years 2022 and 2023 performance measures, the ACA did not terminate the contract for nonperformance and paid/reported paying the full fee to the Israel trade office contractor for both years, consisting of a base fee of \$9,500 per month and up to \$3,500 per month for office expenses. According to the ACA, it did not terminate the contract for nonperformance because the Israel trade office had provided other contractual services, such as representing Arizona at business conferences and event coordination for delegation trips to

⁴⁰ In September 2023, the ACA provided documentation demonstrating that it tracks foreign direct investment leads in its system and that it can generate reports of foreign direct investment leads assigned to its staff. However, the ACA had not compared this information to what is reported by trade offices until September when we asked if they verified information reported to them by the trade offices.

⁴¹ The 3 trade offices in Mexico are managed by the same contractor. Although the ACA sets and tracks performance measure goals for each of the 3 trade offices, according to the ACA, it considers the combined performance measures for all 3 Mexico trade offices when evaluating its contractor's performance.

⁴² The trade offices in South Korea and Taiwan were established subsequent to our review and therefore were not included in our analysis. Additionally, Germany's trade office contract was issued in January 2022 and did not operate for the full fiscal year.

Israel. However, these representation and delegation event coordination activities, like the performance measures described above, are required by the contract agreement and thus were not additional services the contractor provided that compensated for the contractor not meeting the performance measures during fiscal years 2022 and 2023. The ACA reported it notified the contractor that its contract would not be renewed for fiscal year 2024 and that it continued to work with the contractor in July and August 2023 until it could contract with a new contractor; the ACA signed a contract with a new Israel trade office contractor on September 7, 2023.

Additionally, although the ACA had reported that the Israel trade office had difficulty meeting its performance measures in fiscal years 2022 and 2023 because Israel is smaller with fewer corporations compared to the other countries where the ACA maintains trade offices, the performance measures for the new contractor include some annual goals that are identical to or higher than those for the prior contractor. Specifically, the contract signed September 7, 2023, has a goal of 30 Arizona businesses assisted and \$5 million in related export sales, which is identical and 100 percent greater, respectively, than the 2023 goals for these performance measures. The new contract does include a decrease in the goal for the number of foreign direct investment lead goals from 30 to 25. Consistent with contracting best practices recommended by NSAA, the ACA should monitor its new contract to ensure the deliverables are received, such as the performance measures described above, and should take action, such as withholding payments or contract termination, if the contractor does not meet its performance measures.

Table 7
ACA’s contracted trade offices’ combined fiscal years 2022 and 2023 performance did not meet number of businesses assisted performance measure goals but nearly met or exceeded performance measure goals for related export sales and number of foreign direct investment leads

(Unaudited)

		Mexico total (All 3 offices) ¹		Frankfurt, Germany		Tel Aviv, Israel		Total
Fiscal year		2022	2023	2022	2023	2022	2023	
Number of Arizona businesses assisted	Annual goal	270	270	20	75	30	30	695
	Actual	193	267	21	91	19	14	605
	Percentage of goal met	71%	99%	105%	121%	63%	47%	87%
Related export sales	Annual goal	\$12,500,000	12,500,000	800,000	7,500,000	2,500,000	2,500,000	\$38,300,000
	Actual	\$14,575,664	12,344,322	-	10,814,642	-	-	\$37,734,628
	Percentage of goal met	117%	99%	0%	144%	0%	0%	99%
Number of foreign direct investment leads	Annual goal	N/A ²	N/A ²	10	75	30	30	145
	Actual	N/A	N/A	10	102	55	24	191
	Percentage of goal met	N/A	N/A	100%	136%	183%	80%	132%

¹ The 3 trade offices in Mexico are managed by the same contractor. According to the ACA, it considers the combined performance measures for all Mexico trade offices when evaluating its contractor's performance.

² The Mexico trade offices are not responsible for developing foreign direct investment leads; therefore, there is no associated performance measure.

Source: Auditor review of trade office reported performance metrics for fiscal years 2022 and 2023.

- **ACA did not comply with its procurement policy for almost \$115,000 of transportation expenses for 2023 CEO Forum, placing public monies at risk of misuse**—As required by statute, the ACA has adopted its own procurement policy that requires it to obtain verbal price quotations for procurement ranging from \$5,000.01 to \$50,000.00, and in instances of noncompetitive procurement, document the reasons that competition is not practicable and/or would not further the interests of the ACA and why the price paid is considered reasonable in the procurement file.⁴³ However, the ACA did not comply with its procurement policy for \$114,606 of transportation services for its 2023 CEO Forum. Specifically, the ACA reported it anticipated its transportation needs for the event would be \$50,000 or less and entered 2 separate contracts with 2 vendors after obtaining 3 written quotes. According to the ACA’s after-the-fact August 24, 2023, email, 1 week before the 2023 CEO event, it was determined that additional transportation was needed to accommodate all the guests, and it was too late to procure additional services through a formal solicitation, so the ACA Chief Operating Officer determined competition was not practicable and not in the best interest of the ACA. The ACA further reported that it sought additional transportation services from one of the 2 vendors with which it already had a contract as it was the only vendor that could provide the additional needed transportation services. The ACA did not have any documentation to support the ACA Chief Operating Officer’s reasons that competition was not practicable and/or would not further the interests of the ACA and why the price paid was considered reasonable as required by its Procurement policy.

Recommendations

The ACA should:

4. Ensure A1 grant applicants meet all statutory grant qualification requirements and that staff consider and complete all statutory economic impact requirements before approving applicants for an A1 grant by developing, revising, and implementing policies, procedures, and guidance for:
 - a. Verifying applicant-reported health insurance premium or membership information.
 - b. Overseeing the review and verification of grant and economic impact qualification requirements.
 - c. Obtaining median wage salary information for jobs that grant applicants indicate they will create.
 - d. Establishing guidance specifying how due-diligence information should be considered when making grant award decisions.
5. Revise and implement policies and procedures for completing its A1 grant wage-verification process, including:
 - a. Requiring ACA staff to use wage information for all jobs created to determine whether the grantee has met the average wage requirement.
 - b. Establishing requirements and thresholds for expanding the review of job creation information to address differences between grantee-/taxpayer-reported wages and wages reported on submitted tax forms and outlining additional analysis and procedures staff should take when differences exceed tolerable thresholds.
 - c. Establishing procedures for overseeing the review and verification of wage-verification information for jobs created, such as a supervisory review process to ensure the review and wage-verification information is complete and accurate.
6. Ensure that Arizona Innovation Challenge grant applicants submit all required documentation, as required by the ACA’s policy, and develop and implement policies and procedures for overseeing the review and

⁴³ A.R.S. §41-2501(GG).

verification of applicants' submitted documentation, such as supervisory review processes, to ensure compliance with requirements.

7. Develop and implement procedures for obtaining Arizona Innovation Challenge grantee annual reports as required by statute and grant agreements, including following up with grantees and taking other necessary steps to obtain annual reports.
8. Develop and implement policies and procedures for verifying its trade offices' reported progress in achieving their contractual performance measures.
9. Monitor trade office performance to ensure deliverables are received, such as ensuring performance goals are met, and take actions to address trade office nonperformance, such as terminating contracts.
10. Comply with its procurement policy when procuring goods and services, including documenting the reasons that competition is not practicable and/or would not further the interests of the ACA and why the price paid is considered reasonable.

ACA response: As outlined in its [response](#), the ACA agrees with the findings and will implement the recommendations.

Sunset factor 3: The extent to which the ACA serves the entire State rather than specific interests.

The ACA serves the State by providing economic development resources on its website to help attract, retain, and expand businesses in both urban and rural locations in the State. Specifically, using various sources, the ACA has developed county and community profile reports that provide population and economic information for all 15 counties and 92 urban and rural communities in Arizona. For example, as seen in Figure 1, page 35, these reports include information on unemployment rates, potential labor force, workforce education attainment, and industries already employing members of the community. The profiles are posted and accessible on the ACA's public website for any business considering relocation or expansion in the State. In addition, the ACA has developed a small business boot camp to help small businesses around the State. The boot camp includes virtual webinars covering various topics, such as accounting and finance, leading and managing a business, marketing for growth, and business resources. For example, a November 2022 webinar included a discussion on accounting practices, common accounting terminology, and how to use information in financial statements to make decisions. A recording of this webinar and hundreds of others are available on the ACA's website. The ACA also offers monthly webinars for rural economic development stakeholders. For example, the ACA hosted a webinar on rural manufacturing resources, and this webinar along with various others are available on its website.

Figure 1

ACA’s website provides population and economic information for Arizona’s communities, such as Kingman, Arizona

Community Profile for Kingman, Arizona



BASIC INFORMATION

Founded:	1880	Incorporated:	1952
Elevation:	3,345 ft.	Location:	Mohave County
Distance to major cities:			
Phoenix:	186 miles	San Diego:	380 miles
Tucson:	297 miles	Los Angeles:	319 miles
Las Vegas:	105 miles		

POPULATION

	2000	2010	2021 (est.)
Kingman	20,069	28,081	33,716
Mohave County	155,032	200,099	216,527
State of Arizona	5,130,632	6,401,569	7,285,370

Office of Economic Opportunity

Arizona Dept. of Revenue & Arizona Tax Research Foundation

SALES TAX / TRANSACTION PRIVILEGE TAX

Kingman	2.50%
Mohave County	0.25%
State	5.60%

Arizona Dept. of Revenue & Arizona Tax Research Foundation

LABOR FORCE

	2000	2010	2022
Civilian Labor Force	9,298	12,486	14,194
Unemployed	377	1,338	776
Unemployment Rate	4.1%	10.7%	5.5%

Office of Economic Opportunity

WORKFORCE EDUCATION ATTAINMENT

	Count	Share
Less than high school	2,524	11.3%
High school or equivalent, no college	6,404	28.8%
Some college or Associate degree	9,110	41.0%
Bachelor’s degree or advanced degree	4,202	18.9%

American Community Survey

INDUSTRY (RANKED BY EMPLOYMENT)

	Count	Share
Education, health care & social assistance	3,046	26.4%
Retail trade	1,304	11.3%
Public administration	1,235	10.7%
Arts, entertainment, food & recreation services	1,094	9.5%
Professional, scientific, & administrative services	995	8.6%
Construction	908	7.9%
Transportation, warehousing, & utilities	706	6.1%
Manufacturing	694	6.0%
Other services, except public administration	595	5.2%
Finance, insurance & real estate	562	4.9%
Information	163	1.4%
Agriculture, forestry, fishing, hunting, & mining	147	1.3%
Wholesale trade	100	0.9%

American Community Survey

Source: ACA’s community profile webpage for Kingman, Arizona. Retrieved 8/23/2023 from <https://www.azcommerce.com/a/profiles/ViewProfile/77/Kingman/>.

We also identified some areas where the ACA could better serve the entire State. Specifically, ACA:

- Is responsible for managing the Arizona Broadband Development Grant program and has announced grant awards of nearly \$100 million for broadband development, but has not established policies and procedures for administering the grant program, increasing risk for misuse and inaccurately accounting for and reporting on use of grant monies—**
 The ACA is responsible for coordinating the implementation of local, State, and federal broadband programs through its State Broadband Office, including managing the Arizona Broadband

Key term

Broadband—High-speed internet access that allows for the transmission of data using high-speed transmission technologies over various mediums, such as telephone lines, cable modems, and fiber optics.

Source: Auditor review of the Federal Communications Commission’s website

Development Grant program.⁴⁴ Effective January 2022, the ACA entered into an interagency service agreement with the Governor’s Office that provided approximately \$100 million in federal Coronavirus Capital Projects Fund monies for broadband infrastructure projects. The ACA is responsible for using these federal monies to provide grants to help underserved and unserved Arizona communities, such as counties and cities, to develop or improve broadband infrastructure in their communities.⁴⁵

Using the approximate \$100 million in Coronavirus Capital Projects Fund monies, in July 2022, the ACA announced 20 awardees of the Arizona Broadband Development Grant. This included a total of approximately \$75.7 million awarded to 14 rural communities in the State, such as Coconino and La Paz Counties, and more than \$23.6 million awarded to 6 urban communities, such as Gila Bend and Surprise City Center and Heritage District. The ACA signed agreements with 14 of these 20 grantees in August and September 2023, and reported it plans to distribute these grant monies by the end of calendar year 2023 upon receiving requests for reimbursement.⁴⁶ The ACA reported using the *Arizona Grant Manual* published by the Governor’s Office of Strategic Planning and Budgeting as a guide and an evaluation committee to review and approve the 20 grant applications; however, it has not yet established policies and procedures for its Arizona Broadband Development Grant program, including those for monitoring grant awards. In September 2023 the ACA entered into an agreement with a third party to monitor the Arizona Broadband Development Grant program to ensure compliance with program guidelines and requirements, including reviewing invoices provided by grantees to determine eligibility before issuing reimbursement grant payments. However, according to the agreement, the ACA needs to work with the contractor to further define the scope of services, timeline, and deliverables. Further, the ACA had not yet developed performance measures to assess the contractor’s performance.

The ACA reported that it is working with a consultant to develop policies and procedures for its Arizona Broadband Development Grant program. However, as of August 2023, it has yet to finalize policies and procedures and did not provide draft policies and procedures for our review or an estimated completion date. Additionally, the federal monies the ACA received/will receive are subject to federal and State reporting requirements, and the ACA will need to accurately report on, document, and monitor the use of these monies, including working with the Arizona Department of Administration’s General Accounting Office to ensure the federal monies are accurately reported in the State’s Schedule of Expenditures of Federal Awards as part of the State’s annual federal compliance audit.⁴⁷ Similarly, the ACA lacks policies and procedures to account for and report on the use of these federal monies. Although the ACA reported using the Governor’s Office and federal guidance to award the nearly \$100 million in broadband development grant monies, it did not provide documentation showing it adhered to this guidance. As a result, without policies and procedures for awarding and monitoring the use of grant monies, monitoring a third-party vendor, and accounting for and reporting on the use of federal monies, the ACA is at risk for misusing and inaccurately accounting for and reporting on the use of these grant monies. Ultimately, the ACA could be responsible for repaying any questioned costs to the federal government.

Similarly, in June 2023, the Governor announced Arizona will receive nearly \$1 billion in federal monies through the National Telecommunications Information Administration’s Broadband, Equity, Access, and Deployment (BEAD) Program. The ACA will be responsible for distributing these monies. According to the ACA, it will develop policies, procedures and guidelines, and work with consultants as needed for the administration of grants under the BEAD Program.

⁴⁴ A.R.S. §41-1511 established the State Broadband Office within the ACA, and its interagency service agreement with the Governor’s Office requires it to manage the Arizona Broadband Development Grant program.

⁴⁵ Consistent with its responsibility, the ACA reported it worked with a third-party contractor to identify underserved and unserved broadband service areas in the State.

⁴⁶ The ACA did not provide grant agreements for the remaining 6 grantees; as such, it is unknown if there is a valid grant agreement or when the grant agreements were approved.

⁴⁷ 2 Code of Federal Regulations §§ 200.508, 200.510.

- **Did not always follow its conflict-of-interest policies and had not fully aligned its conflict-of-interest processes with recommended practices**—We assessed whether the ACA serves the entire State rather than special interests by reviewing the ACA’s conflict-of-interest practices. The State’s conflict-of-interest requirements exist to remove or limit the possibility of personal influence from impacting a decision of a public agency employee or public officer. Statute requires employees of public agencies and public officers, including Board members, to avoid conflicts of interest that might influence or affect their official conduct.⁴⁸ These laws require employees/public officers to disclose substantial financial or decision-making interests in a public agency’s official records, either through a signed document or the agency’s official minutes. Statute further requires that employees/public officers who have disclosed conflicts refrain from participating in matters related to the disclosed interests. Finally, A.R.S. §38-509 requires public agencies to maintain a special file of all documents necessary to memorialize all disclosures of substantial interest and to make this file available for public inspection.

Additionally, in response to conflict-of-interest noncompliance and violations investigated in the course of our work, such as employees/public officers failing to disclose substantial interests and participating in matters related to these interests, we have recommended several practices and actions to various school districts, State agencies, and other public entities.⁴⁹ Our recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements by reminding employees/public officers of the importance of complying with the State’s conflict-of-interest laws.⁵⁰ Specifically, conflict-of-interest recommended practices indicate that all public agency employees and public officers complete a disclosure form annually. Recommended practices also indicate that the form includes a field for the individual to provide an “affirmative no,” if applicable. These recommended practices also indicate that agencies develop a formal remediation process and provide periodic training to ensure that identified conflicts are appropriately addressed and help ensure conflict-of-interest requirements are met.

The ACA has complied with some State conflict-of-interest requirements and recommended practices by maintaining a special file of substantial interest disclosures, establishing a remediation process within its policies, and annually reminding its staff to review its conflict-of-interest policies. However, our review found that the ACA did not always follow its policies and had not fully aligned its conflict-of-interest processes, including its forms, with recommended practices. Specifically, the ACA:

- **Did not ensure 5 of 11 employees we reviewed submitted disclosure forms, consistent with ACA policy**—The ACA’s conflict-of-interest policy requires its employees to acknowledge the receipt and review of its conflict-of-interest policy upon the policy’s implementation in 2017 and thereafter upon hire. ACA staff reported that this can be accomplished by either signing a receipt and acknowledgement (R&A) form or completing a conflict-of-interest disclosure form. However, 5 of 11 employees we reviewed had not completed an R&A or disclosure form in accordance with the policy requirements and did not do so until we requested them.⁵¹ The ACA attributed this noncompliance to the disclosure form not being included with the new employee onboarding packet and reported it

⁴⁸ A.R.S. §§41-1502(K) and 38-503.

⁴⁹ See, for example, Auditor General reports 21-402 *Higley Unified School District—Criminal indictment—Conspiracy, procurement fraud, fraudulent schemes, misuse of public monies, false return, and conflict of interest*, 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

⁵⁰ Recommended practices we reviewed included: Organization for Economic Cooperation and Development (OECD). (2021). *Recommendation of the council on OECD guidelines for managing conflict of interest in the public service*. Paris, France. Retrieved 11/4/2022 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Arlington, VA. Retrieved 11/4/2022 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 11/4/2022 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>.

⁵¹ We reviewed 11 of 83 employees (excluding interns) the ACA reported were employed as of November 2022. Specifically, we judgmentally selected the ACA’s CEO because of her decision-making responsibilities and randomly sampled 10 employees from the remaining 82 employees.

has since included the form in the onboarding packet. However, the 5 ACA employees should have completed these forms between approximately 9 months and 5 years before doing so.

- **Did not require disclosure of outside employment**—The ACA’s R&A and disclosure forms require employees to disclose conflicts of interest as defined in their policy, which includes substantial interest in any contract, sale, purchase, service, or decision involving the State of Arizona. However, the ACA does not require employees to disclose outside employment, which is inconsistent with recommended practices.

Recommendations

The ACA should:

11. To ensure adequate oversight of its Arizona Broadband Development Grant program:
 - a. As specified in its third-party contract agreement, work with the contractor to define the scope of services, timelines, and deliverables.
 - b. Develop and implement policies and procedures for monitoring its third-party broadband development contractor for compliance with contract terms and conditions, including developing and overseeing contractor’s completion of performance measures.
12. Develop and implement policies and procedures for accurately accounting for and reporting on the use of federal broadband development grant monies.
13. Work with the Arizona Department of Administration’s General Accounting Office to ensure the federal broadband monies are accurately reported in the State’s Schedule of Expenditures of Federal Awards as part of the State’s annual federal compliance audits.
14. Develop and implement policies and procedures for the management and oversight of BEAD grant monies, consistent with State and federal requirements, including policies and procedures for soliciting, reviewing, evaluating, and awarding grant applications; monitoring grant recipients and their use of grant monies; and closing out grants once projections are complete.
15. Develop and implement procedures to track and monitor that all employees/public officers comply with its conflict-of-interest policies by completing an R&A or conflict-of-interest disclosure form upon hire/ appointment, when circumstances change, and when forms and policies are revised.
16. Revise its R&A and conflict-of-interest disclosure forms to include disclosures of outside employment.

ACA response: As outlined in its [response](#), the ACA agrees with the findings and will implement the recommendations.

Sunset factor 4: The extent to which rules adopted by the ACA are consistent with the legislative mandate.

A.R.S. §41-1005(A)(27) exempts the ACA from the statutorily required rulemaking process if, as appropriate under the circumstances, the ACA provides a notice for opportunity to comment on the proposed rules. Although the ACA is exempt from the rulemaking process, it is still required to adopt rules when it is statutorily required. A review of the ACA’s statutes and rules found that the ACA has adopted rules when statutorily required to do so. Specifically, 8 statutes require the ACA to adopt rules, and we found that as of July 2023, the ACA has adopted rules for all 8 statutes.

Sunset factor 5: The extent to which the ACA has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

As previously mentioned in Sunset Factor 4, although the ACA is exempt from the rulemaking process, it must provide, as appropriate under the circumstances, notices of opportunity for comment on any proposed rules.⁵² The ACA has adopted rulemaking policies and procedures, which include informing the public of its rulemaking. Consistent with its policies and procedures, our review of the ACA's 3 most recently completed rulemakings found that it had provided notice of opportunity for comment on the associated proposed rules in August 2021 and November 2022. The ACA received 4 comments for 1 of 3 rulemakings we reviewed and, in response to the comments, revised the rules to better align with statute. The ACA also generally followed its rulemaking policies and procedures by posting notices of proposed rulemakings on its website and including information such as the proposed rule, contact information of ACA staff regarding the proposed rule, and information on where members of the public can review written submissions on proposed rules. Additionally, the ACA provided opportunities for public input on proposed rules by allowing for written input within 30 days after the date of posting the Notice of Rulemaking.

Additionally, we attended 3 Board of Directors meetings and 1 Rural Business Development Advisory Council meeting held between December 2022 and June 2023 and found that the ACA complied with most of the open meeting law requirements we reviewed for these meetings. For example, the ACA's website included the statutorily required disclosure statement indicating where the physical and electronic locations of the public meeting notices would be posted. Additionally, the ACA posted the public meeting notice at least 24 hours before the meeting for the 2 meetings where we reviewed this requirement, and we found the ACA appropriately held executive session as applicable, for the meetings we attended.⁵³ However, we did identify 1 instance of noncompliance. For the Rural Business Development Advisory Council meeting we attended, the ACA did not include the complete physical address for the meeting on its agenda.⁵⁴ The *Arizona Agency Handbook* requires the meeting notice to include the date, time, and place of the meeting, including the specific street address and meeting room. Further, the link to attend the meeting virtually that was included on the agenda did not work. These deficiencies may have prevented members of the public from attending the meeting.

Recommendation

17. The ACA should ensure its meeting agendas include the complete physical and correct electronic address of its public meetings.

ACA response: As outlined in its [response](#), the ACA agrees with the finding and will implement the recommendation.

Sunset factor 6: The extent to which the ACA has been able to investigate and resolve complaints that are within its jurisdiction and the ability of the ACA to timely investigate and resolve complaints within its jurisdiction.

The ACA does not have statutory responsibility for investigating and resolving complaints. However, the ACA has established some guidelines for investigating and resolving complaints it receives regarding its approval of financial incentives, such as tax credits for taxpayers making qualified investments in Arizona small businesses or for creating qualified jobs in the State, and for protests related to contract solicitations and awards. For example, the ACA has established a process for applicants who have been denied ACA-administered financial incentives to appeal its decision, both informally and in writing. The ACA's complaint-review process includes requiring ACA staff to review the complaint to determine its validity and contacting the affected party to obtain additional information. ACA staff may also work with the ACA's General Counsel to determine an appropriate

⁵² A.R.S. §41-1005(A)(27).

⁵³ For 2 of the 4 meetings we attended, we did not review the ACA's compliance with the 24-hour requirement.

⁵⁴ Because the Rural Business Development Advisory Council had only 1 meeting during our review period, it is unknown if this was an isolated incident or a pervasive problem.

response after it completes its investigation. According to the ACA, it received 2 complaints between 2016 and 2017 related to its administration of financial incentives. For example, the ACA reported that after investigating a complaint made by a solar tax credit applicant in April 2017, it reversed its denial of a solar energy tax credit. Likewise, for complaints related to request for proposals and contract award decisions, the ACA's guidance requires the procurement to be paused, all or in part, and an investigation into the procurement's compliance with statute to ensure the procurement meets applicable laws. ACA policies also require it to remedy the issue, such as terminating an awarded contract, if a violation is found. According to the ACA, it received 1 procurement related complaint in 2016.

Sunset factor 7: The extent to which the Attorney General or any other applicable agency of state government has the authority to prosecute actions under the enabling legislation.

A.R.S. §§41-192(D)(10) and 41-1504(A)(5) authorize the ACA to hire and retain its own counsel to provide legal services, and as of March 2023, the ACA reported it employs 1 attorney to provide general legal services. Additionally, the ACA uses private contractors for legal services, such as for preparing and negotiating broadband services agreements.

Sunset factor 8: The extent to which the ACA has addressed deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate.

According to the ACA, there are no deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate.

Sunset factor 9: The extent to which changes are necessary in the laws of the ACA to adequately comply with the factors listed in this sunset law.

We did not identify any needed changes to the ACA's statutes.

Sunset factor 10: The extent to which the termination of the ACA would significantly affect the public health, safety, or welfare.

Terminating the ACA would likely not have a significant effect on public health and safety because its statutory responsibilities do not include provisions for protecting public health and safety. However, if the ACA were terminated, there would be no State entity performing its statutory responsibilities for economic development, such as growing and diversifying Arizona's economy, creating high-quality jobs by administering financial incentive programs, supporting and attracting businesses that can provide economic benefits for the State, and marketing Arizona to attract, expand, and retain business, which could impact public welfare if responsibilities are not transferred to another entity. Further, A.R.S. §41-1545.01 established the Competes Fund, from which the ACA issues grants for the purpose of attracting, expanding, or retaining Arizona basic enterprises, such as A1 grants, which are awarded to businesses that commit to creating quality jobs and making significant capital investments in the State, and to support and advance rural and small businesses in the State.

If the ACA were terminated, responsibility for the Competes Fund would need to be transferred to another State entity.

Additionally, A.R.S. §41-1511 established the State Broadband Office within the ACA that is responsible for coordinating the implementation of local, State, and federal broadband programs. In July 2022, the ACA announced 20 awardees of the Arizona Broadband Development Grant, which will provide almost \$100 million in funding for projects to develop more than 3,000 miles of broadband across the State with the potential to impact more than 800,000 people. Additionally, in June 2023, Governor Hobbs announced that Arizona will receive nearly \$1 billion in federal monies, in addition to the almost \$100 million in Arizona Broadband Development grants announced in July 2022, to help build and expand broadband infrastructure throughout the State. If the ACA were terminated, responsibility for the State Broadband Office would need to be transferred to another State entity.

Sunset factor 11: The extent to which the level of regulation exercised by the ACA compares to other states and is appropriate and whether less or more stringent levels of regulation would be appropriate.

This sunset factor does not apply because the ACA is not a regulatory agency.

Sunset factor 12: The extent to which the ACA 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.

The ACA uses private contractors in the performance of several responsibilities, including for the management of its trade offices, to conduct economic impact studies, and for tax and policy analysis to identify factors affecting businesses' decisions to locate to Arizona or other states. Additionally, as previously mentioned in the Introduction, pages 3 and 4, as part of its responsibility for managing the State's Broadband Office, the ACA is responsible for developing a State-wide broadband strategic plan, which includes strategies for implementing broadband infrastructure in the State, and uses a third-party contractor to assist it with developing and updating its strategic plan.⁵⁵ According to the ACA, it also plans to use contractors to administer the Arizona Broadband Development Grant program (see Sunset Factor 3, pages 34 through 38, for more information on the Arizona Broadband Development Grant program and our related recommendations). Additionally, the ACA uses contractors for various marketing and advertising services, such as developing marketing strategies and tracking the effectiveness of digital media strategies marketing the ACA's services.

We contacted 2 other states' economic development agencies—Georgia and Utah—to determine the extent to which these states use private contractors.⁵⁶ These economic development agencies reported using private contractors for the following purposes:

- Similar to Arizona, the Georgia Department of Economic Development reported that it uses private contractors to operate its trade offices in various countries, including Canada, the United Kingdom, and Mexico, and does not use private contractors for any other purposes.
- The Utah Governor's Office of Economic Opportunity (Office) reported that it does not have foreign trade offices, but it does contract with the World Trade Organization to lead trade missions for Utah businesses in other countries and to assist those businesses with exporting their products to other countries. The Office also reported that it uses private contractors to assist with developing applications for some of its grant programs. Finally, the Office reported that it contracts with the Economic Development Corporation of Utah, which helps businesses match with local governments for site locations and apply to the Office for economic incentives.

We did not identify any additional areas where the ACA should consider using private contractors.

⁵⁵ A.R.S. §41-1511(C).

⁵⁶ As previously discussed, we selected these 2 states because the ACA identified them as competitors in its economic development efforts.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 17 recommendations to the ACA

The ACA should:

1. Ensure Quality Jobs tax credit recipients and A1 grantees meet all job and capital investment requirements by developing procedures for reviewing and verifying recipient-reported information, and documenting this review, prior to approving tax credits or distributing grant monies (see Finding 1, pages 11 through 16, for more information).
2. Revise and implement written policies, procedures, and guidance for reviewing and verifying all job creation information, including ensuring for all jobs the grantee reported it created in Arizona that:
 - All jobs have been filled for at least 90 days from the Arizona job creation date.
 - All filled jobs are held by Arizona residents.
 - Jobs filled by an employee within 12 months of the Arizona job creation date relocated from another state (see Finding 1, pages 11 through 16, for more information).
3. Develop and implement written policies and procedures for overseeing the review and verification of reported job creation and capital investment information, such as a supervisory review process, to ensure the review and verification of reported information is complete, documented, and accurate (see Finding 1, pages 11 through 16, for more information).
4. Ensure A1 grant applicants meet all statutory grant qualification requirements and that staff consider and complete all statutory economic impact requirements before approving applicants for an A1 grant by developing, revising, and implementing policies, procedures, and guidance for:
 - a. Verifying applicant-reported health insurance premium or membership information.
 - b. Overseeing the review and verification of grant and economic impact qualification requirements.
 - c. Obtaining median wage salary information for jobs that grant applicants indicate they will create.
 - d. Establishing guidance specifying how due-diligence information should be considered when making grant award decisions (see Sunset Factor 2, pages 25 through 34, for more information).
5. Revise and implement policies and procedures for completing its A1 grant wage-verification process, including:
 - a. Requiring ACA staff to use wage information for all jobs created to determine whether the grantee has met the average wage requirement.
 - b. Establishing requirements and thresholds for expanding the review of job creation information to address differences between grantee-/taxpayer-reported wages and wages reported on submitted tax forms and outlining additional analysis and procedures staff should take when differences exceed tolerable thresholds.

- c. Establishing procedures for overseeing the review and verification of wage-verification information for jobs created, such as a supervisory review process to ensure the review and wage-verification information is complete and accurate (see Sunset Factor 2, pages 25 through 34, for more information).
6. Ensure that Arizona Innovation Challenge grant applicants submit all required documentation, as required by the ACA's policy, and develop and implement policies and procedures for overseeing the review and verification of applicants' submitted documentation, such as supervisory review processes, to ensure compliance with requirements (see Sunset Factor 2, pages 25 through 34, for more information).
7. Develop and implement procedures for obtaining Arizona Innovation Challenge grantee annual reports as required by statute and grant agreements, including following up with grantees and taking other necessary steps to obtain annual reports (see Sunset Factor 2, pages 25 through 34, for more information).
8. Develop and implement policies and procedures for verifying its trade offices' reported progress in achieving their contractual performance measures (see Sunset Factor 2, pages 25 through 34, for more information).
9. Monitor trade office performance to ensure deliverables are received, such as ensuring performance goals are met, and take actions to address trade office nonperformance, such as terminating contracts (see Sunset Factor 2, pages 25 through 34, for more information).
10. Comply with its procurement policy when procuring goods and services, including documenting the reasons that competition is not practicable and/or would not further the interests of the ACA and why the price paid is considered reasonable (see Sunset Factor 2, pages 25 through 34, for more information).
11. To ensure adequate oversight of its Arizona Broadband Development Grant program:
 - a. As specified in its third-party contract agreement, work with the contractor to define the scope of services, timelines, and deliverables.
 - b. Develop and implement policies and procedures for monitoring its third-party broadband development contractor for compliance with contract terms and conditions, including developing and overseeing contractor's completion of performance measures (see Sunset Factor 3, pages 34 through 38, for more information).
12. Develop and implement policies and procedures for accurately accounting for and reporting on the use of federal broadband development grant monies (see Sunset Factor 3, pages 34 through 38, for more information).
13. Work with the Arizona Department of Administration's General Accounting Office to ensure the federal broadband monies are accurately reported in the State's Schedule of Expenditures of Federal Awards as part of the State's annual federal compliance audits (see Sunset Factor 3, pages 34 through 38, for more information).
14. Develop and implement policies and procedures for the management and oversight of BEAD grant monies, consistent with State and federal requirements, including policies and procedures for soliciting, reviewing, evaluating, and awarding grant applications, monitoring grant recipients and their use of grant monies, and closing out grants once projections are complete (see Sunset Factor 3, pages 34 through 38, for more information).
15. Develop and implement procedures to track and monitor that all employees/public officers comply with its conflict-of-interest policies by completing an R&A or conflict-of-interest disclosure form upon hire/ appointment, when circumstances change, and when forms and policies are revised (see Sunset Factor 3, pages 34 through 38, for more information).

16. Revise its R&A and conflict-of-interest disclosure forms to include disclosures of outside employment (see Sunset Factor 3, pages 34 through 38, for more information).
17. Ensure its meeting agendas include the complete physical and correct electronic address of its public meetings (see Sunset Factor 5, page 39, for more information).



ACA tax incentive and grant programs as of fiscal year 2022

As discussed in the Introduction, pages 1 through 3, the ACA’s responsibilities include administering tax incentive and grant programs, and as shown in Table 8 below, the ACA administered 9 tax incentive programs and 6 grant programs in fiscal year 2022.

Table 8

ACA approved or awarded 386 tax credits and grants totaling nearly \$429 million in fiscal year 2022 through its 9 tax incentive and 6 grant programs

Tax incentive	Total amount approved	Number of incentives/grants approved	Incentive purpose
Tax incentive programs			
Qualified Facility Incentive Program	\$261,475,745	54	Encourage companies to establish and expand manufacturing facilities in the State that produce high quality jobs through a refundable income tax credit.
Quality Jobs Incentive Program	46,617,000	69	Encourage business investment and high-quality job creation in the State through tax credits to businesses that meet investment, employment, and wage thresholds.
Research and Development Incentive Program	5,000,003	81	Increase research and development activities through income tax refunds to individuals and corporations.
Military Reuse Zone Tax Incentive	4,844,682	10	Lessen the impact of military base closures with tax exemptions and property tax reclassifications for businesses in military reuse zones providing aviation/aerospace services or products.

Table 8 continued

Tax incentive	Total amount approved	Number of incentives/ grants approved	Incentive purpose
Angel Investment Incentive Program	2,482,176 ²	86	Promote early-stage investment in targeted Arizona businesses with less than \$10 million through tax credits.
Healthy Forest Enterprise Incentive Program	1,046,304	14	Promote forest health through fuel tax reductions and use tax exemptions to businesses engaged in harvesting, processing, or transporting forest products.
University Research and Development Incentive Program	17,138	2	Increase research and development activities through tax credits for research payments to Arizona public universities.
Computer Data Center Incentive Program	Unknown ¹	9	Encourage computer data center expansion and operation in Arizona through use tax and transaction tax exemptions.
International Operations Center Incentive Program	Unknown ¹	2	Promote investment in international operations centers using renewable energy through utility tax relief.
Total tax incentive programs	\$321,483,048	327	
Competes Fund grants			
Arizona Innovation Challenge Grant	\$1,800,000	12	Encourage commercialization of new technologies and small business growth.
A1 Grant/Deal Closing Grant	1,600,000	2	Attract, expand, and retain Arizona basic enterprises.
Small Business Development Center Grant	335,000	1	Enhance small and rural businesses economic development. The grant is awarded to the Maricopa County Community College District, which distributes the money to small business centers across the State.
Total Competes Fund grants	\$3,735,000	15	

Table 8 continued

Tax incentive	Total amount approved	Number of incentives/ grants approved	Incentive purpose
Other Authority Grants			
Arizona Broadband Development Grants	\$99,300,000 ²	20	Enable local communities to construct or improve broadband infrastructure.
Applied Research Centers Grants	2,750,000	18	Support applied research of wearables, blockchain, and target technologies approved by the Authority with matching funds up to \$250,000.
Economic Strengths Program	1,400,000	6	Support growth and ensure critical transportation infrastructure is available in rural areas of the State. This program is a partnership with the Arizona Department of Transportation.
Total Other Authority Grants	\$103,450,000	44	
Total	\$428,668,048	386	

¹ Per A.R.S. §§41-1519(l) and 41-1520(l), this information is confidential and can only be transmitted to the Arizona Department of Revenue.

² As mentioned in Sunset Factor 3, pages 34 through 36, in June 2023, the Governor announced Arizona will receive \$993.1 million in federal monies through the National Telecommunications Information Administration’s BEAD Program to provide additional grants for broadband development.

Source: Auditor review of ACA’s fiscal year 2022 annual report and Competes Fund annual report.



Competes Fund grant recipients active as of fiscal year 2022

As discussed in the Introduction, pages 2 and 3, the ACA awards 3 types of grants from the Competes Fund—A1 grants, also known as deal-closing grants; Arizona Innovation Challenge grants; and Small Business Development Center grants. Tables 9, 10, and 11 in this appendix provide information on the Competes Fund grants the ACA has awarded, including the recipient, fiscal year awarded, grant amount, and applicable recipient job creation and capital investment commitments. Specifically, as shown in Table 9, pages b-1 through b-4, the ACA awarded 28 A1 grants in fiscal years 2016 through 2022 that were open and active as of fiscal year 2022. Additionally, as shown in Table 10, pages b-5 through b-8, the ACA awarded 62 Arizona Innovation Challenge grants in fiscal years 2017 through 2022 that were also open and active as of fiscal year 2022. Finally, Table 11, page b-9, shows the Small Business Development Center grant, including the grant amount, the ACA awarded to the Maricopa County Community College District in fiscal year 2022. As discussed in the Introduction, page 3, the ACA annually awards this grant to the Maricopa County Community College District, which in turn distributes these monies to other colleges around the State that host small business development centers.

Table 9
Businesses with active Competes Fund A1 grants, year and total amount awarded, job creation and capital investment commitments, and number of jobs created and capital investments made, as reported by the ACA
As of fiscal year 2022¹

(Unaudited)

Entity	FY awarded	Amount awarded	Number of new jobs to be created	Number of actual jobs created	Average wage of new jobs to be created	Average wage of jobs created	Capital investment committed	Capital investment made
Commercial Metals Company	2022	\$1,000,000	186	85	\$70,000	\$82,205	\$435,400,000	\$311,952,725
Rauch North America, Inc.	2022	600,000	209	211	55,902	59,619	280,000,000	311,841,350
Align Technology, Inc.	2021	500,000	150	60	111,446	162,349	4,100,000	4,100,000

Table 9 continued

Entity	FY awarded	Amount awarded	Number of new jobs to be created	Number of actual jobs created	Average wage of new jobs to be created	Average wage of jobs created	Capital investment committed	Capital investment made
DOT Foods, Inc.	2021	125,000	60	33	50,000	50,870	10,900,000	11,745,720
Viavi Solutions, Inc.	2021	375,000	233	41	139,820	349,583	96,311,609	63,959,899
23andMe, Inc.	2020	500,000	52	0	100,000	0	18,367,000	0
Allstate Insurance Company	2020	1,000,000	2,350	880	44,889	72,834	26,276,060	34,465,120
Choice Hotels International, Inc.	2020	500,000	250	0	90,473	0	25,886,500	16,657,961
Mark Anthony Brewing, Inc.	2020	1,250,000	250	217	42,614	58,538	275,000,000	367,482,000
Nikola Corporation	2020	3,500,000	2,012	833	65,000	107,858	1,000,000,000	278,926,454
Norton LifeLock, Inc.	2020	1,000,000	150	0	157,000	0	13,412,328	0
Universal Electronics, Inc.	2020	500,000	131	55	103,684	137,256	5,414,810	3,801,287
Atieva USA, Inc. (dba Lucid Motors USA, Inc.)	2019	5,000,000	2,185	2,200	42,266	70,099	675,000,000	681,000,000

Table 9 continued

Entity	FY awarded	Amount awarded	Number of new jobs to be created	Number of actual jobs created	Average wage of new jobs to be created	Average wage of jobs created	Capital investment committed	Capital investment made
Boeing Company	2019	750,000	914	754	87,985	102,297	10,000,000	26,010,823
Deloitte Consulting, LLP	2019	2,500,000	1,000	759	95,201	102,873	30,000,000	59,032,765
Nationwide Mutual Insurance Company	2019	2,500,000	514	1,407	58,439	101,595	139,000,000	181,498,359
Bank of the West	2018	3,000,000	1,027	654	74,196	75,054	24,628,337	30,595,764
Benchmark Electronics, Inc.	2018	1,800,000	512	286	92,671	110,799	35,100,000	115,300,254
MUFG Union Bank, N.A.	2018	5,000,000	1,755	1,535	82,955	93,341	149,100,000	107,384,934
ZipRecruiter, Inc.	2018	250,000	262	174	75,924	75,937	15,000,000	0
ADP, Inc.	2017	1,500,000	1,500	850	46,210	53,396	33,750,000	33,534,665
Caterpillar Global Mining, LLC	2017	4,000,000	635	455	90,000	132,932	50,000,000	50,250,600
Rogers Corporation	2017	900,000	190	79	75,358	121,979	21,690,000	111,649,310

Table 9 continued

Entity	FY awarded	Amount awarded	Number of new jobs to be created	Number of actual jobs created	Average wage of new jobs to be created	Average wage of jobs created	Capital investment committed	Capital investment made
World View Enterprises	2017	1,000,000	298	58	56,540	84,226	25,200,000	15,824,876
JDA Software Group, Inc. ²	2016	350,000	N/A	N/A	N/A	N/A	N/A	N/A
NAGRA USA, Inc.	2016	500,000	349	117	131,792	137,907	35,500,000	10,005,256
Republic Services Customer Resource Center West, LLC	2016	500,000	520	279	40,047	35,916	3,700,000	4,672,406
ZipRecruiter, Inc.	2016	\$500,000	238	238	\$75,924	\$76,026	\$11,390,000	\$7,465,868

¹ These grants may be active for several years because, as discussed in the Introduction (see page 2), the ACA should distribute grant monies in installments upon verifying that the business has met performance targets specified in their grant agreements and these monies may be distributed over a period of years. For example, in fiscal year 2018, the ACA awarded \$3 million to Bank of the West based on its commitment to create 1,027 jobs and make \$24,628,337 in capital investments in the State. The grant agreement specified a maturity date of February 16, 2023. At the time of our review in April 2023, Bank of the West had received installment payments totaling \$2,581,600 of its \$3 million grant award after reporting it had created 801 of the 1,027 jobs it committed to create and met its \$24,628,337 capital investment commitment.

² According to the ACA, its fiscal year 2016 grant award to JDA Software Group, Inc. was a retention grant in which the business agreed to retain existing Arizona jobs for a period of 10 years and did not include new job creation or capital investment commitments.

Source: Auditor review of ACA's fiscal year 2022 Competes Fund annual report.

Table 10

Businesses with active Competes Fund Arizona Innovation Challenge grants, years and amounts awarded, job creation commitments, and number of jobs created and capital investments made, as reported by the ACA

As of fiscal year 2022

(Unaudited)

Entity	Fiscal year awarded	Amount awarded	Number of new jobs to be created¹	Number of jobs created	Average wage of jobs created²	Capital investment made
Ampcera, Inc.	2022	\$150,000	N/A	9	\$74,658	\$150,000
Better Agency, Inc.	2022	150,000	N/A	11	105,000	750,000
Bluetail, Inc.	2022	150,000	N/A	5	77,500	2,500
Dorm Room Movers, LLC	2022	150,000	N/A	9	66,016	0
Navi Nurses, Inc.	2022	150,000	N/A	10	115,840	2,000
ReSuture, Inc.	2022	150,000	N/A	5	50,000	100,000
SaiOx, Inc.	2022	150,000	N/A	6	40,000	0
TapRoot Interventions & Solutions, Inc.	2022	150,000	N/A	7	105,000	0
The Patient Company	2022	150,000	N/A	3	50,000	232,015
VIVAHR, LLC	2022	150,000	N/A	2	60,500	0
Custom Club, Inc., dba Retainer Club	2021	150,000	N/A	4	88,900	371,088
Delta Thermal, Inc.	2021	150,000	N/A	0	0	143,257
EnPower, Inc.	2021	150,000	N/A	10	96,031	25,481
EscrowTab, Inc.	2021	150,000	N/A	1	144,000	561,092
Journeyage, LLC	2021	150,000	N/A	0	0	0
Neolight, LLC	2021	150,000	N/A	4	14,400	100,000

Table 10 continued

Entity	Fiscal year awarded	Amount awarded	Number of new jobs to be created¹	Number of jobs created	Average wage of jobs created²	Capital investment made
RVeloCity, Inc., dba RVnGo	2021	150,000	N/A	9	72,000	7,208
Schola, Inc.	2021	150,000	N/A	6	70,204	0
Sentinal Monitoring Systems, Inc.	2021	150,000	N/A	2	65,000	0
Sylvan Source, Inc.	2021	150,000	N/A	0	0	0
Additive Implants, Inc	2020	150,000	N/A	2	88,560	1,861,000
Admiral Instruments, LLC	2020	150,000	N/A	3	72,000	0
AdviNOW, Inc (dba AdviNOW Medical)	2020	150,000	N/A	4	122,880	0
Biosensing Instrument, Inc	2020	150,000	N/A	0	0	11,000
Botco.ai, Inc.	2020	150,000	N/A	4	62,500	0
BrightGuest Technologies, Inc.	2020	150,000	N/A	2	50,000	0
CATS Tonometer, LLC	2020	150,000	N/A	0	0	135,945
Digitile, LLC	2020	150,000	N/A	2	116,500	482,390
Emagine Solutions Technology, LLC	2020	150,000	N/A	3	64,400	0
Innovative Construction Technology Inc.	2020	150,000	N/A	6	40,000	746,147
Insurmi, Inc.	2020	150,000	N/A	4	120,000	418,834

Table 10 continued

Entity	Fiscal year awarded	Amount awarded	Number of new jobs to be created¹	Number of jobs created	Average wage of jobs created²	Capital investment made
Lyfechannel, Inc. (dba LIGHTHOUSE)	2020	150,000	N/A	5	80,000	0
OralKleen LLC	2020	150,000	N/A	4	65,250	0
OTOjOY PBC	2020	150,000	N/A	2	76,250	0
Radpay, Inc.	2020	150,000	N/A	0	0	0
Reglagene Holding Inc.	2020	150,000	N/A	5	42,000	0
Remitter USA, Inc.	2020	150,000	N/A	7	152,285	74,237
RexPay Inc.	2020	150,000	N/A	4	31,500	0
SafKan, Inc.	2020	150,000	N/A	0	0	310,000
The Surf Network, Inc.	2020	150,000	N/A	0	0	8,000
Breezing Company	2019	150,000	N/A	1	50,000	68,000
eTrack Tech, Inc.	2019	150,000	N/A	0	0	3,000
Hyver Labs, LLC dba Persosa	2019	150,000	N/A	2	37,000	0
Innovative Climatic Technologies (Air2o), LLC	2019	150,000	N/A	3	36,000	0
Mindset Medical, LLC	2019	150,000	N/A	4	46,500	39,200
Paradigm Diagnostics, Inc.	2019	150,000	N/A	10	54,114	156,000
Quote Countertops	2019	150,000	N/A	1	72,000	0
Qwick, Inc.	2019	150,000	N/A	19	70,256	0
Trainual, LLC	2019	150,000	N/A	10	55,017	0

Table 10 continued

Entity	Fiscal year awarded	Amount awarded	Number of new jobs to be created ¹	Number of jobs created	Average wage of jobs created ²	Capital investment made
Virtuous Software, Inc.	2019	150,000	N/A	9	64,740	0
GT Medical Technologies, Inc.	2018	250,000	2	14	128,040	114,075
Life365, Inc.	2018	250,000	11	15	42,800	0
Paradox, LLC	2018	250,000	0	39	73,614	320,301
Renewology	2018	250,000	1	0	0	0
Resonea, Inc.	2018	250,000	4	6	87,167	45,549
SimpleWAN, Inc.	2018	250,000	1	1	70,000	15,618
Attribytes, Inc.	2017	250,000	1	2	N/A	0
ClickIPO Holdings, LLC	2017	250,000	4	1	N/A	2,613,706
Codelucida, LLC	2017	250,000	2	2	N/A	487,000
Electric Torque Machines, Inc.	2017	250,000	0	3	N/A	121,679
Hydranalix, Inc.	2017	250,000	1	9	N/A	176,088
Naya Energy, LLC	2017	\$250,000	11	15	\$29,938	\$225,481

¹ According to the ACA, Arizona Innovation Challenge grants may result in job creation but is often not required. Further, although grants awarded prior to 2019 include data for number of new jobs to be created, the ACA reported these were not grant requirements.

² The ACA does not require Arizona Innovation Challenge grantees to make average wage or capital investment commitments.

Source: Auditor review of ACA's fiscal year 2022 Competes Fund annual report.

Table 11

Fiscal year 2022 Competes Fund small business development center grant recipient, amount awarded, job creation and capital investment commitment, and number of jobs created and capital investments made, as reported by the ACA

As of fiscal year 2022

(Unaudited)

Entity	FY awarded	Amount awarded	Number of new jobs to be created	Number of actual jobs created	Average wage of new jobs to be created	Average wage of jobs created	Capital investment committed	Capital investment made
Maricopa County Community College District	2022	\$335,000	788	1,304	\$38,397	\$38,932	\$102,063,892	\$182,268,475

Source: Auditor review of ACA's fiscal year 2022 Competes Fund annual report.



Example attendee itinerary from ACA's 2023 private CEO Forum

Beginning on page C-2 is an example of an attendee itinerary from the ACA's 2023 private CEO Forum, which has been redacted to remove attendee identifying information and a Board member's name.



██████████ CEO Forum Itinerary

Company: ██████████
 Guest Name: ████████████████████
 Cell Number: ██████████
 Arizona Commerce Authority Contact: ██████████████████████████████████
 Hotel Accommodations: Resort Room – One King Bed
 Itinerary Updated on February 8, 2023

THURSDAY, FEB 9

██████████	██████████ to arrive at Phoenix Sky Harbor International Airport at ██████████ via American Airlines, ██████████ A driver will greet you at the airport to take you to the Arizona Biltmore, A Waldorf Astoria Resort. Check-in at the Hospitality Suite and settle into your premier hotel room accommodations.
██████████	██████████ to arrive at Phoenix Sky Harbor International Airport at ██████████ and will drive via rental car to the hotel.
5:00 PM – 7:00 PM	VIP Welcome Reception at the Arizona Biltmore – Gold Room <i>*Attire: Business Casual</i>
7:00 PM – 11:00 PM	Phoenix Open Birds Nest featuring Jason Aldean Guests will meet at 7:00 PM in the Arizona Biltmore – Gold Room for transport. <i>*Attire: Casual</i> <i>No opaque bags larger than 6" x 6" are permitted through the gates. No clear, plastic, vinyl, or other carry items larger than 12" x 6" x 12" are permitted through the gates.</i>





FRIDAY, FEB 10

7:00 AM – 7:45 AM	Meet in the Arizona Biltmore – Aztec Room for Hatha/Vinyasa Yoga, excellent for beginners as well as experienced yogis. <i>*Attire: Workout Attire</i>
8:30 AM – 10:00 AM	Brunch and Workforce Development Panel featuring Arizona University Presidents and Community College Chancellors at the Arizona Biltmore – Gold Room <i>*Attire: Business Casual</i> <i>Attendance at brunch is required to pick up your tickets for your daily activity. Plus ones are welcome and encouraged to attend all brunch sessions.</i>
10:15 AM OR 10:45 AM – 3:30 PM OR 4:00 PM	WM Phoenix Open VIP Skybox on the 17 th Hole Transportation will leave for the Phoenix Open at either 10:15 AM or 10:45 AM. Guests will meet in the Arizona Biltmore – Gold Room at either time. Lunch will be provided. There will be two options for transportation back to the Arizona Biltmore at the end of the day. <i>*Attire: Casual or Golf Attire</i> <i>No opaque bags larger than 6" x 6" are permitted through the gates. No clear, plastic, vinyl, or other carry items larger than 12" x 6" x 12" are permitted through the gates.</i>
5:15 PM – 8:30 PM	Private Dinner at the Paradise Valley Country Club featuring special guests Arizona Governor Katie Hobbs, Arizona Cardinals President & Owner Michael Bidwill, former Arizona Cardinals Wide Receiver Larry Fitzgerald, and the Lombardi Trophy. Guests will meet in the Arizona Biltmore – Gold Room for transport at 5:15pm. <i>*Attire: Business or Cocktail Attire</i>

SATURDAY, FEB 11

7:00 AM – 7:45 AM	Meet in the Arizona Biltmore – Aztec Room for Hatha/Vinyasa Yoga, excellent for beginners as well as experienced yogis.
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	<p><i>*Attire: Workout Attire</i></p>
8:30 AM – 10:00 AM	<p>Brunch featuring Economic Update Keynote from Economist Elliott D. Pollack at the Arizona Biltmore – Gold Room</p> <p><i>*Attire: Business Casual</i></p> <p><i>Attendance at brunch is required to pick up your tickets for your daily activity. Plus ones are welcome and encouraged to attend all brunch sessions.</i></p>
11:00 AM – 3:00 PM	<p>Camelback Mountain’s Echo Canyon Hike</p> <p>Meet in the Arizona Biltmore – Gold Room at 11:00 AM for transport to Camelback Mountain. The hike consists of 2.5 miles round trip and will take approximately 3 hours to complete. Please note that the world-famous hike is considered challenging and is not recommended for novice hikers. Appropriate hiking shoes with a study sole and good tread are required. Lunch will not be provided so please make sure to grab a snack in the Hospitality Suite before leaving.</p> <p><i>*Attire: Workout Attire and Good Athletic Shoes</i></p>
5:15 PM – 9:00 PM	<p>Private Dinner at the residence of [REDACTED] [REDACTED] Arizona Commerce Authority board member.</p> <p>Guests will meet in the Arizona Biltmore – Gold Room for transport at 5:15 PM.</p> <p><i>*Attire: Business or Cocktail Attire</i></p>
9:00 PM – 12:00 AM	<p>NFL Owner’s Party featuring a performance by Gwen Stefani</p> <p>Guests depart at 9:00 PM for transport to the exclusive private party.</p> <p><i>*Attire: Business or Cocktail Attire</i></p>

SUNDAY, FEB 12

7:00 AM – 7:45 AM	<p>Meet in the Arizona Biltmore – Aztec Room for Hatha/Vinyasa Yoga, excellent for beginners as well as experienced yogis.</p> <p><i>*Attire: Workout Attire</i></p>
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<p>8:30 AM – 10:30 AM</p>	<p>Brunch and Welcome Remarks from Arizona Governor Katie Hobbs, Arizona Senator Mark Kelly and Arizona Cardinals President & Owner Michael Bidwill followed by panel discussion with industry leaders at the Arizona Biltmore – Gold Room</p> <p><i>*Attire: Business Casual</i></p> <p><i>Attendance at brunch is required to pick up your Super Bowl and VIP Tailgate tickets. Plus ones are welcome and encouraged to attend all brunch sessions.</i></p>
<p>11:15 AM OR 11:45 AM OR 12:15 PM – 4:30 PM</p>	<p>Super Bowl LVII VIP Tailgate Party at State Farm Stadium</p> <p>Transportation will leave for State Farm Stadium at either 11:15 AM, 11:45 AM or 12:15 PM. Guests will meet in the Arizona Biltmore – Gold Room at either time.</p> <p><i>*Attire: Casual</i></p> <p><i>Only clear plastic, vinyl or PVC and do not exceed 12" x 6" x 12" are permitted. Small clutch bags, with a maximum size of 4.5" x 6.5", with or without a handle or strap, may be carried into the stadium along with one of the clear bag options.</i></p>
<p>4:30 PM – 9:00 PM</p>	<p>Super Bowl LVII Game at State Farm Stadium Private Suite</p> <p>Guests will migrate over from the VIP Tailgate Party to the Private Suite at State Farm Stadium for a 4:30 PM game start.</p> <p><i>*Attire: Casual</i></p> <p><i>Only clear plastic, vinyl or PVC and do not exceed 12" x 6" x 12" are permitted. Small clutch bags, with a maximum size of 4.5" x 6.5", with or without a handle or strap, may be carried into the stadium along with one of the clear bag options.</i></p>

MONDAY, FEB 13

<p>Starting at 6:00 AM</p>	<p>Grab and Go Breakfast will be available in the Hospitality Suite.</p>
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Transport every 30 minutes from 3:00 AM – 12:00 PM	Transport to the airport will begin starting at 3:00 AM and will run every 30 minutes through 12:00 PM. Meet a driver in front of the Arizona Biltmore – Gold Room at one of the 30-minute increments at your discretion. We highly recommend leaving three hours before departure due to heavy crowds and traffic.
12:27 PM	██████████ to depart Phoenix Sky Harbor International Airport at ██████████ via American Airlines

We are happy to accommodate any itinerary adjustments if needed. Please connect with your CEO Forum Contact to do so or if you have any questions about your upcoming stay.

Important Notes: Please download the following two apps to ensure you have the most premier CEO Forum experience.

2023 Super Bowl LVII CEO Forum App

Access useful CEO Forum resources, including CEO Forum participants and FAQs, in one user-friendly app.

Visit ██████████ or scan the QR code on the following page to download the app.

2023 NFL OnePass Mobile Ticketing App

To obtain Super Bowl LVII game and fan experience tickets, you will need to download the NFL OnePass App. More instructions to obtain tickets will be given during the Brunch on Sunday, Feb 13.

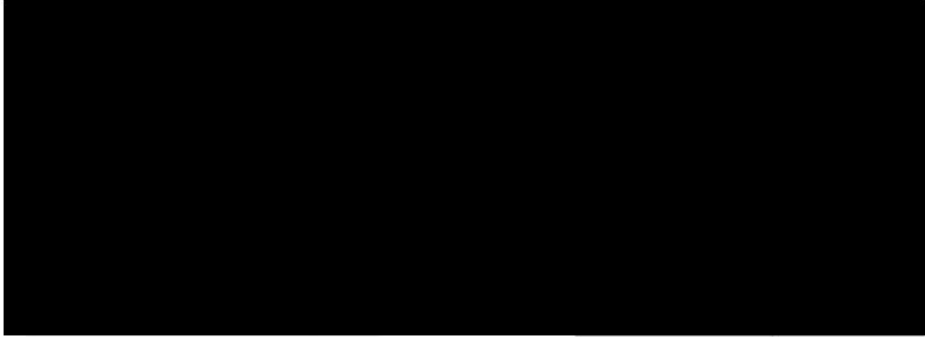
Visit ██████████ or scan the QR code on the following page to download the app.





2023 Super Bowl LVII CEO Forum App

2023 NFL OnePass Ticketing App





Scope and methodology

The Arizona Auditor General has conducted this performance audit and sunset review of the ACA pursuant to a December 17, 2020, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to address the audit's objectives. These methods included reviewing applicable State statutes and federal laws and regulations, ACA and federal grant agreements, and the ACA's policies and procedures; interviewing ACA staff; and reviewing information from the ACA's website. In addition, we used the following specific methods to meet the audit objectives:

- To evaluate the ACA's process for verifying that businesses met job creation and capital investment requirements before distributing A1 grant monies and approving Quality Jobs tax credits, we reviewed a sample of 4 of 28 A1 grants that were active as of fiscal year 2022.⁵⁷ Additionally, we reviewed a random sample of 13 quality jobs tax credits and a judgmental sample of 8 quality jobs tax credits from the 99 quality jobs tax credits ACA staff approved in fiscal years 2021 and 2022.⁵⁸ We also reviewed various grant agreements, including the performance requirements established in the agreements, Quality Job tax credit applications, milestone reports, and other ACA documentation related to its process for reviewing and verifying grantee-reported job creation and capital investment information.
- To provide information about the ACA's CEO Forums held in calendar years 2018 through 2023, including what they are, why ACA hosts them, the activities that were included, and what they cost, we reviewed various ACA-provided documents, including event itineraries; event-related invoices for calendar years 2018, 2019, 2020, 2022, and 2023; and documentation indicating job creation and capital investment commitments made by representatives of companies attending the events.⁵⁹ We also reviewed the Arizona Constitution's gift clause and applicable case law, the ACA's gift and entertainment policies and procedures, and SAAM requirements.
- To assess whether the ACA awarded A1 grants to qualified applicants, we reviewed a random sample of 5 of 28 A1 grants that were active as of fiscal year 2022; and various grant agreements, economic impact assessments, and other required A1 grant documentation needed for grant approval, such as certificates of good standing and certificates of no tax delinquencies.
- To evaluate the ACA's process for verifying that businesses met all tax credit requirements before approving Qualified Facility income tax credits, we reviewed statute and the ACA's policies and procedures. We also reviewed a random sample of 5 qualified facility tax credits and a judgmental sample of 5 qualified facility

⁵⁷ Originally, a random sample of 5 of 28 businesses with active A1 grants as reported in the ACA's fiscal year 2022 Arizona Competes Fund Report were selected for review. Although all 5 businesses submitted information to the ACA requesting a portion of their grant monies, 1 of the 5 businesses had not received any grant monies at the time of our review because the ACA was awaiting the receipt of additional information from the business before making a distribution, so this item was excluded from our review of the ACA's review and verification process

⁵⁸ We identified 3 companies that were judgmentally selected based on an ACA board member or board member's family working at the company or if the company was highlighted in the news with financial related concerns, such as reports of layoffs and potential liquidations. We then judgmentally selected 8 post-approved incentives received by these 3 companies in fiscal years 2021 and 2022.

⁵⁹ According to the ACA, it did not host a private CEO Forum in 2021 because of the COVID-19 pandemic.

tax credits from the 29 qualified facility tax credits approved in fiscal years 2021 and 2022.⁶⁰ We also reviewed Qualified Facility Tax credit applications, supporting documentation, and reports from third party CPA firms verifying that the business met the requirements for the Qualified Facility income tax credit.

- To assess whether the ACA ensured all Arizona Innovation Challenge grant applicants met grant eligibility requirements before awarding these grants and that grant recipients annually reported on achievement of performance targets as required, we reviewed a random sample of 10 of 62 Arizona Innovation Challenge grants that were active as of fiscal year 2022. This included a review of associated grant agreements, grant application documentation such as certificates of good standing and certificates of no tax delinquencies, and grantee annual reports required by statute and grant agreements.⁶¹
- To determine whether the ACA ensured the appropriate use of public monies distributed to grantees from the Arizona Coronavirus Relief Fund, we reviewed all payments totaling \$75,000 or more in fiscal years 2020 and 2021, resulting in our reviewing more than \$7.8 million of the \$10.2 million the ACA distributed. Grant and payment documentation we reviewed included the ACA's guidance for issuing grants from the Arizona Coronavirus Relief Fund, grant award letters, grantee invoices and other financial information, and practices for carrying out state economic development efforts recommended by the NSAA.⁶²
- To determine whether the ACA established and monitored contracts with its trade offices in accordance with recommended practices, we reviewed the ACA's 3 contracts for its trade offices in Germany, Israel, and Mexico.^{63,64} We also reviewed documentation on trade office reported information regarding the achievement of contractual performance measures for fiscal years 2022 and 2023.
- To review the ACA's implementation of the Arizona Broadband Development Grant program, we reviewed the ACA's interagency service agreement with the Governor's Office for Coronavirus Capital Projects fund monies, the Federal BEAD program agreement and supporting documentation, U.S. Department of the Treasury guidance related to the BEAD program, the ACA's Statewide Broadband strategic plan, information on the ACA's website, and other documentation provided by the ACA.
- To assess the ACA's compliance with State conflict-of-interest requirements and alignment with recommended practices, we reviewed statute, the ACA's conflict-of-interest policies and procedures, conflict-of-interest disclosure form, receipt and acknowledgement forms, and conflict-of-interest recommended practices.⁶⁵
- To obtain additional information for the Sunset Factors, we judgmentally selected and contacted 2 states—Georgia and Utah—to gain an understanding of their use of private contractors and determine whether

⁶⁰ We reviewed 10 of 29 Qualified Facility tax credits the ACA reported were approved in its annual reports for fiscal years 2021 and 2022. We first judgmentally selected 5 approved tax credits we considered to be high-risk because a Board member disclosed that they or a family member worked for the business applying for the tax credit and then randomly sampled 5 approved tax credits from the remaining 24. We identified 2 companies that were judgmentally selected based on an ACA board member or board member's family working at the company. We then judgmentally selected 5 post-approved incentives received by these 2 companies in fiscal years 2021 and 2022.

⁶¹ Our review of a random sample of 10 of 62 grants active as of fiscal year 2022 found that 2 of the grantees were awarded a grant in 2022 and were not yet required to submit a report at the time of our review.

⁶² National State Auditors Association (NSAA). (2004). *Best practices in carrying out state economic development efforts: A National State Auditors Association best practices document*. Lexington, KY. Retrieved 1/6/2023 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Economic_Development.pdf.

⁶³ The ACA has 1 contractor who operates trade offices in 3 Mexican cities—Chihuahua, Guanajuato, and Mexico City.

⁶⁴ National State Auditors Association (NSAA). (2003). *Contracting for services: A National State Auditors Association best practices document*. Lexington, KY. Retrieved 2/2/23 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2003_Contracting_Best_Practices.pdf.

⁶⁵ Recommended practices we reviewed included: Organization for Economic Cooperation and Development (OECD). (2021). *Recommendation of the council on OECD guidelines for managing conflict of interest in the public service*. Paris, France. Retrieved 11/4/2022 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Arlington, VA. Retrieved 11/4/2022 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 11/4/2022 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>.

they meet the ACA's objective and purpose through private enterprise. To assess the ACA's compliance with various provisions of the State's open meeting law, we observed 4 public meetings³ Board of Directors meetings and 1 Rural Business Advisory Council meeting held between December 2022 and June 2023. We also reviewed 3 ACA rulemakings, the ACA's complaint-handling policies and procedures, and other information provided by the ACA.

- To obtain information for the Introduction, we reviewed statute, the ACA's fiscal year 2022 annual report, the ACA's organizational chart, information on the ACA's website, and descriptions of ACA teams provided by ACA staff. Additionally, we compiled and analyzed the ACA's fiscal years 2021 and 2022 financial statements audited by an independent certified public accounting firm and ACA provided estimates for fiscal year 2023.
- To obtain information for Appendices A and B, we reviewed the ACA's fiscal year 2022 Annual Report, fiscal year 2022 Competes Fund Annual Report, and other information provided by the ACA.

Our work on internal controls included reviewing ACA policies and procedures and, where applicable, testing its compliance with these policies and procedures; and assessing compliance with State and federal regulations and various grant agreements. We reported our conclusions on applicable internal controls in Finding 1 and Sunset Factors 2, 3 and 5.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit and sunset review of the ACA in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



AUDITOR GENERAL'S COMMENTS ON THE ACA RESPONSE

The Joint Legislative Audit Committee requires all agencies to respond to whether they agree with our findings and plan to implement the recommendations. However, the ACA has included certain statements in its response that misrepresent our work, mislead the reader, and deflect attention from the message that the ACA needs to improve its performance in various areas. To provide clarity and perspective, we are commenting on the ACA's response to our audit.

1. Throughout its response to Finding 1 and Sunset Factor 2, the ACA asserts that its staff performed certain activities such as verifying various information and conducting supervisory reviews that misrepresent its compliance with statutory and policy requirements (see ACA response, pages 2, 3, and 6).

As reported in Finding 1 (see pages 11 through 16) and Sunset Factor 2 (see pages 25 through 34), the ACA lacked evidence showing it verified various requirements or information and/or conducted supervisory reviews before approving Quality Jobs tax credits and awarding A1 grants, and addressed trade office nonperformance.

For example, although the ACA has included a table with its response asserting that it collected all necessary Quality Jobs tax credit eligibility documentation, as we reported in Finding 1 (see pages 12 through 14), none of the 21 Quality Jobs tax credits the ACA approved that we reviewed included any documentation demonstrating that the ACA used Unemployment Insurance Tax and Wage reports filed with the Arizona Department of Economic Security to verify business-reported job creation information as required by the ACA's policy. Further, for 1 Quality Jobs tax credit the ACA approved, although the ACA's table indicates it obtained proof of the business meeting capital expenditure requirements, such proof was not included in any of the documents the ACA provided to us related to this company's Quality Jobs tax credit approval.

2. The ACA's response to Recommendation 10 (see ACA response, page 6) inaccurately represents its compliance with its procurement policy for the 2023 private CEO Forum transportation expenditures when it states, "The decisions made by the ACA in the matter referenced in the audit report were fully compliant with ACA procurement policies. The issue identified was related to additional documentation. The ACA will continue to follow its procurement policy."

The ACA's procurement policy requires the ACA to maintain documentation supporting the ACA Chief Operating Officer's reasons that competition was not practicable and/or would not further the interests of the ACA and why the price paid was considered reasonable; the ACA did not provide us any evidence to show that it complied with this requirement.

ACA RESPONSE

September 29, 2023

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

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

Dear Ms. Perry:

I want to extend my sincere thanks to you and your team for your service to our state and coordination over the last year. Since January, our teams have worked extensively together to conduct a performance audit as required under the sunset review process for the Arizona Commerce Authority (the "ACA"). I am attaching the responses of the ACA to the findings and recommendations of the Final Performance Audit.

The ACA is responsible for developing and executing a results-based, comprehensive, and statewide strategy to attract new businesses to the state, help Arizona-based businesses expand, and facilitate an environment that empowers entrepreneurs and innovation to thrive.

The ACA was established in the wake of the Great Recession, following years of lackluster growth and slow recovery. Our results since then have been transformative. Since 2011, the ACA has successfully won 1,180 competitive projects, representing a projected 267,000 new jobs with average wages of \$60,000 and over \$113.4 billion invested in Arizona communities across the state.

As we look to the next decade and beyond, Arizona's opportunity is greater than ever. We are laser-focused on making the most of this opportunity for the benefit of Arizonans and future generations.

We appreciate the work of the Auditor General team to help us reach this goal.

We again extend our thanks to you and your staff for your efforts during the Sunset Review process.

Sincerely,



Sandra Watson
President & CEO



Finding 1: ACA lacks evidence showing it verified businesses met some requirements when reviewing and approving nearly \$11 million in financial incentives, increasing risk of fraud and waste of public monies

Recommendation 1: The ACA should ensure Quality Jobs tax credit recipients and A1 grantees meet all job and capital investment requirements by developing procedures for reviewing and verifying recipient-reported information, and documenting this review, prior to approving tax credits or distributing grant monies.

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

Response explanation: For over a decade, the Authority has accomplished unprecedented economic results benefiting all Arizonans. The Authority has landed 1,180 projects, creating a projected 267,000 new jobs. This represents a total of \$113.48 billion invested in Arizona communities. These results underscore the success of the ACA in meeting its core mission. The ACA has ensured that all of the recipients of the referenced \$11 million in credits and grants have met all statutory requirements. For both Quality Jobs credits and A1 Competes grants, the process requires all applicants submit a sworn statement, under penalty of perjury, with the required information. ACA staff reviews and verifies this information. This is followed by a second supervisory review. Attached is a table reflecting the information collected from each applicant. This includes documents such as invoices and other proof of qualifying capital expenditures; lists of employees including date of hire, annual wage, home addresses, hours worked, previous employment information, relocation information, proof of company participation in the e-Verify program; statewide employment information; and employer health insurance contribution information. All documentation is reviewed by a program manager and supervisor before credits are issued or grant payments approved. Please see Table: Arizona Commerce Authority Quality Jobs Tax Credit Documentation. No instance of fraud or waste of public monies was identified.

Recommendation 2: The ACA should revise and implement written policies, procedures, and guidance for reviewing and verifying all job creation information, including ensuring for all jobs the grantee reported it created in Arizona that:

- All jobs have been filled for at least 90 days from the Arizona job creation date.
- All filled jobs are held by Arizona residents.
- Jobs filled by an employee within 12 months of the Arizona job creation date relocated from another state.

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

Response explanation: As noted in the response to Recommendation 1, the ACA has ensured all of the recipients of the referenced \$11 million in credits and grants have met all statutory requirements. For both Quality Jobs credits and A1 competes grants, the process requires all applicants submit a sworn statement, under penalty of perjury, with the required information. ACA staff reviews and verifies this information. This is followed by a second supervisory review. Attached is a table reflecting the information collected from each applicant. This includes

documents such as invoices and other proof of qualifying capital expenditures; lists of employees including date of hire, annual wage, home addresses, hours worked, previous employment information, relocation information, proof of company participation in the e-Verify program; statewide employment information; and employer health insurance contribution information. All documentation is reviewed by a program manager and supervisor before credits are issued or grant payments approved. Please see Table: Arizona Commerce Authority Quality Jobs Tax Credit Documentation. No instance of fraud or waste of public monies was identified.

Recommendation 3: The ACA should develop and implement written policies and procedures for overseeing the review and verification of reported job creation and capital investment information, such as a supervisory review process, to ensure the review and verification of reported information is complete, documented, and accurate.

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

Response explanation: Supervisors do, in fact, review all of the information as specified in ACA process documents. As stated in our response to Recommendation 1, all applications are reviewed first by a program manager and then undergo supervisory review. ACA will update its procedures to reflect this current practice.

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

Recommendation 4a: The ACA should ensure A1 grant applicants meet all statutory grant qualification requirements and that staff consider and complete all statutory economic impact requirements before approving applicants for an A1 grant by developing, revising, and implementing policies, procedures, and guidance for verifying applicant-reported health insurance premium or membership information.

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

Response explanation: A1 Competes recipients have created a total of 20,611 new jobs in Arizona and invested a total of nearly \$5 billion across the state. Results are published in an Annual report which is distributed to the President of the Senate, the Speaker of the House of Representatives, the Joint Legislative Budget Committee and the Secretary of State and can be found on ACA's website. Additionally, results are published quarterly on the ACA's website. ACA has ensured all recipients of A1 grants met all statutory requirements for receipt of the grant, including health insurance cost sharing. For A1 Competes grants, the applicants submit a sworn statement, under penalty of perjury, with the required information. ACA reviews all of this information to verify all statutory requirements are met.

Recommendation 4b: The ACA should ensure A1 grant applicants meet all statutory grant qualification requirements and that staff consider and complete all statutory economic impact requirements before approving applicants for an A1 grant by developing, revising, and implementing policies, procedures, and guidance for overseeing the review and verification of grant and economic impact qualification requirements.

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

Response explanation: All documents are reviewed for A1 Competes applicants, first by a program manager, and then by a supervisor. Much like the Quality Jobs Program, the A1 Competes grant process requires substantial documentation from the client. A program manager and supervisor review all files, including the economic impact results. ACA will update procedures to reflect this current practice.

Recommendation 4c: The ACA should ensure A1 grant applicants meet all statutory grant qualification requirements and that staff consider and complete all statutory economic impact requirements before approving applicants for an A1 grant by developing, revising, and implementing policies, procedures, and guidance for obtaining median wage salary information for jobs that grant applicants indicate they will create.

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

Response explanation: For each and every A1 Competes grant, the ACA commissions a comprehensive third-party economic impact analysis to ensure that the benefits to the state substantially exceed the grant. The projected wage is one of the factors in the economic impact analysis. The Competes statute identifies average wage as the qualifying criteria for grant awards. The ACA will include the median wage in future economic impact analyses when available.

Recommendation 4d: The ACA should ensure A1 grant applicants meet all statutory grant qualification requirements and that staff consider and complete all statutory economic impact requirements before approving applicants for an A1 grant by developing, revising, and implementing policies, procedures, and guidance for establishing guidance specifying how due-diligence information should be considered when making grant award decisions.

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

Response explanation: ACA due diligence on A1 grant recipients is comprehensive and done prior to any grant award. The results of each diligence process are reviewed individually. Decisions about proceeding with an award are made after that review. The ACA will update procedures to reflect this current practice.

Recommendation 5a: Revise and implement policies and procedures for completing its A1 grant wage-verification process, including requiring ACA staff to use wage information for all jobs created to determine whether the grantee has met the average wage requirement.

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

Response explanation: ACA ensures all A1 Competes grants recipients meet all grant requirements, including wage verification. For A1 competes grants, all applicants submit a sworn statement, under penalty of perjury, with the required information. ACA reviews and verifies this information. This managerial review is followed by a supervisor review. In this

review, the ACA has always used average wage information for all jobs (not a sample set). The ACA will update procedures to reflect this current practice.

Recommendation 5b: The ACA should revise and implement policies and procedures for completing its A1 grant wage-verification process, including establishing requirements and thresholds for expanding the review of job creation information to address differences between grantee-/taxpayer-reported wages and wages reported on submitted tax forms and outlining additional analysis and procedures staff should take when differences exceed tolerable thresholds.

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

Response explanation: The ACA follows this process. When needed, the ACA expands wage verification procedures based on established criteria. The ACA will update procedures to reflect this current practice.

Recommendation 5c: All documents are reviewed for A1 Competes applicants, first by a program manager, and then by a supervisor. Much like the Quality Jobs Program, the A1 Competes grant process requires substantial documentation from the client. A program manager and supervisor review all files, including the results of wage verification. ACA will update procedures to reflect that the supervisory reviews are completed.

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

Response explanation: All applications are reviewed first by a program manager and then by a supervisor. Much like the Quality Jobs Program, the A1 Competes grant application requires substantial documentation from the client. A program manager reviews all files, including the results of wage verification. ACA will update procedures to reflect this current practice.

Recommendation 6: The ACA should ensure that Arizona Innovation Challenge grant applicants submit all required documentation, as required by the ACA's policy, and develop and implement policies and procedures for overseeing the review and verification of applicants' submitted documentation, such as supervisory review processes, to ensure compliance with requirements.

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

Response explanation: The Arizona Innovation Challenge (AIC) program has received applications from 2,700 entrepreneurs since the inception of the program. The 125 awardees selected in a highly competitive process raised \$1.6 Billion in follow-on capital since being awarded and generated 959 new Arizona jobs. This competitive grant program has contributed significantly to the expansion of Arizona's entrepreneurial ecosystem. ACA will review procedures and make adjustments as appropriate.

Recommendation 7: The ACA should develop and implement procedures for obtaining Arizona Innovation Challenge grantee annual reports as required by statute and grant agreements, including following up with grantees and taking other necessary steps to obtain annual reports.

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

Response explanation: All Arizona Innovation Challenge (AIC) applicants complete milestone activities and submit a report to the ACA before receiving any grant funds. ACA staff work closely with all grant recipients as they progress through the Venture Ready Accelerator program. The Program includes 5 rigorous multi-week workshops over a 12-month period, including deep dives on marketing and finance. After the initial performance period, follow-on reports for informational purposes are to be submitted annually for four additional years after funding requirements are met. The ACA will ensure annual reports are received for subsequent years after the performance period.

Recommendation 8: The ACA should develop and implement policies and procedures for verifying its trade offices' reported progress in achieving their contractual performance measures.

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

Response explanation: The ACA works hand-in-hand with all the international trade offices to increase exports by Arizona companies and identify opportunities for foreign direct investment into Arizona. These trade offices also assist the ACA, government officials, Arizona businesses and other Arizona stakeholders to create and maintain key relationships in their respective markets. The ACA works daily with these offices and verifies trade office progress weekly.

Recommendation 9: The ACA should monitor trade office performance to ensure deliverables are received, such as ensuring performance goals are met, and take actions to address trade office nonperformance, such as terminating contracts.

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

Response explanation: The ACA closely manages foreign trade office contracts and oversees the performance of these offices. The referenced contract in the auditor's report was monitored and appropriate action was taken to ensure an orderly transition to a new contractor while maintaining Arizona's presence in the country and provision of services to Arizona stakeholders.

Recommendation 10: The ACA should comply with its procurement policy when procuring goods and services, including documenting the reasons that competition is not practicable and/or would not further the interests of the ACA and why the price paid is considered reasonable.

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

Response explanation: The decisions made by the ACA in the matter referenced in the audit report were fully compliant with ACA procurement policies. The issue identified was related to additional documentation. The ACA will continue to follow its procurement policy.

Sunset factor 3: The extent to which the ACA serves the entire State rather than specific interests.

Recommendation 11a: As specified in its third-party contract agreement, work with the contractor to define scope of services, timeline, and deliverables.

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

Response explanation: Through a competitive bid process, a contractor was identified and awarded the contract to support the administration of the Arizona Broadband Development Grant program. The scope of work and deliverables are identified in the contract. Working within ACA's standard practice, staff will ensure all services are delivered as called for in the contract.

Recommendation 11b: The ACA should, to ensure adequate oversight of its Arizona Broadband Development Grant program, develop and implement policies and procedures for monitoring its third-party broadband development contractor for compliance with contract terms and conditions, including developing and overseeing contractor's completion of performance measures.

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

Response explanation: The ACA, as is our standard practice, will ensure the contractor meets the contract requirements spelled out in the scope of work, which was signed just this month.

Recommendation 12: The ACA should develop and implement policies and procedures for accurately accounting for and reporting on the use of federal broadband development grant monies.

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

Response explanation: Federal guidelines are still under development. When federal guidelines are finalized, ACA will draft the appropriate policies and procedures for the program, in accordance with federal guidelines, and will utilize third-party contractors as needed.

Recommendation 13: The ACA should work with the Arizona Department of Administration's General Accounting Office to ensure the federal broadband monies are accurately reported in the State's Schedule of Expenditures of Federal Awards as part of the State's annual federal compliance audits.

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

Response explanation: This is the ACA's current standard practice.

Recommendation 14: The ACA should develop and implement policies and procedures for the management and oversight of BEAD grant monies, consistent with State and federal requirements, including policies and procedures for soliciting, reviewing, evaluating, and awarding grant applications, monitoring grant recipients and their use of grant monies, and closing out grants once projections are complete

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

Response explanation: When federal guidelines are finalized, ACA will draft the appropriate policies and procedures for the program, in accordance with federal guidelines, and will utilize third-party contractors as needed.

Recommendation 15: The ACA should develop and implement procedures to track and monitor that all employees/public officers comply with its conflict-of-interest policies by completing an R&A or conflict-of-interest disclosure form upon hire/ appointment, when circumstances change, and when forms and policies are revised.

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

Response explanation: No undisclosed conflicts were identified in the audit process. The Authority has an established process to distribute the Conflicts of Interest Policy and to receive acknowledgements and disclosures.

Recommendation 16: The ACA should revise its R&A and conflict-of-interest disclosure forms to include disclosures of outside employment.

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

Response explanation: The ACA will update the Conflicts of Interest Policy to explicitly ask employees to disclose any outside employment.

Sunset factor 5: The extent to which the ACA has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

Recommendation 17: The ACA should ensure its meeting agendas include the complete physical and correct electronic address of its public meetings.

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

Response explanation: The ACA already includes the full physical address and/or meeting link on public meeting agendas, when appropriate. Given that the event in question involved a single instance, the ACA will continue with its current practice, which includes ACA contact information on the agenda in case someone needs assistance finding or accessing a meeting.

Arizona Commerce Authority Quality Jobs Tax Credit Documentation

Application	Capex Documentation	Job Creation & Retention Documentation	Unemployment Verification Data	E-Verify Confirmation	Required Net Increase Worksheet	Required Carry Forward Table	Health Insurance Validation	Signed Affidavits	Filed By
	Proof of capital expenditures including but not limited to, lease agreements and invoices for equipment, furniture & fixtures, computer equipment, tenant improvements, and construction costs	List of employees for new jobs created and jobs retained; includes: names, wages, addresses, hours worked, date hired, percentage of health insurance premiums paid. List to be used to verify Arizona resident, length of service, wage requirements, transfers, and other qualifications.	Unemployment Insurance Tax and Wage reports filed with the Arizona Department of Economic Security which includes employee names and quarterly earnings; to be used to validate employment, Arizona residency and reported wage information.	The receipt provides documentation confirming E-verify enrollment. The State of Arizona requires employers to submit the names and social security numbers to the E-Verify system to confirm employees are U.S. citizen.	Document demonstrating the net change in employment by employer within the state. Statewide employment growth is a requirement of the program.	Table that demonstrates usage of tax credits by the recipient and any credits carried forward from year to year.	Documentation that demonstrates what percentage of health insurance premiums the recipient is paying for employees to validate the requirement of 65% of health insurance cost paid by the employer.	Affidavit Statement by the recipient that certifies, under penalty of perjury, that the information contained in the application for the ACA program is true and correct.	In many cases, third-party accounting (CPA) firms and tax experts are used to compile and remit documentation on behalf of the company.
Application 1	X	X	X	X	X	X	X	X	3rd Party
Application 2	X	X	X	X	X	X	X	X	3rd Party CPA
Application 3	X	X	X	X	X	X	X	X	3rd Party CPA
Application 4	X	X	X	X	X	X	X	X	Company
Application 5	X	X	X	X	X	X	X	X	3rd Party CPA
Application 6	X	X	X	X	X	X	X	X	3rd Party CPA
Application 7	X	X	X	X	X	X	X	X	3rd Party CPA
Application 8	X	X	X	X	X	X	X	X	3rd Party CPA
Application 9	X	X	X	X	X	X	X	X	3rd Party
Application 10	X	X	X	X	X	X	X	X	3rd Party CPA
Application 11	X	X	X	X	X	X	X	X	3rd Party CPA
Application 12	X	X	X	X	X	X	X	X	Company
Application 13	X	X	X	X	X	X	X	X	3rd Party CPA
Application 14	X	X	X	X	X	X	X	X	3rd Party CPA
Application 15	X	X	X	X	X	X	X	X	3rd Party
Application 16	X	X	X	X	X	X	X	X	3rd Party CPA
Application 17	X	X	X	X	X	X	X	X	Company
Application 18	X	X	X	X	X	X	X	X	Company
Application 19	X	X	X	X	X	X	X	X	3rd Party CPA
Application 20	X	X	X	X	X	X	X	X	3rd Party CPA
Application 21	X	X	X	X	X	X	X	X	3rd Party CPA

Represents documents received by the ACA for verification.

