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AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

November 29, 2005

The Honorable Robert Blendu, Chair  
Joint Legislative Audit Committee

The Honorable Laura Knaperek, Vice Chair  
Joint Legislative Audit Committee

Dear Senator Blendu and Representative Knaperek :

Our Office has recently completed a 24-month followup of the Arizona Department of Commerce regarding the implementation status of the 16 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2003 (Auditor General Report No. 03-08). As the attached grid indicates:

- 6 recommendations have been implemented;
- 6 recommendations have not been implemented, all of which require legislative action; and;
- 4 recommendations are not applicable since the Legislature has not made a statutory change.

Unless otherwise directed by the Joint Legislative Audit Committee, this report concludes our follow-up work on the Arizona Department of Commerce's efforts to implement the recommendations resulting from our September 2003 performance report.

Sincerely,

Debbie Davenport  
Auditor General

DD:Acm  
Attachment

cc: Gilbert Jimenez, Director  
Department of Commerce

**ARIZONA DEPARTMENT OF COMMERCE**  
**24-Month Follow-Up Report To**  
**Auditor General Report No. 03-08**

**FINDING 1: Commerce’s functions can potentially be eliminated, modified, or transferred**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Explanation for Recommendations That Have Not Been Implemented</b>
<p>1. The Legislature should consider eliminating the following Department of Commerce functions, since, to some extent, they duplicate programs operated by other entities:</p> <ul style="list-style-type: none"> <li>• Small Business Services</li> <li>• Apprenticeship Services</li> <li>• Economic Information and Research</li> <li>• Growing Smarter functions</li> </ul>	<p>Not Implemented</p>	<p>The Legislature has not taken any action on this recommendation.</p>
<p>2. If the Apprenticeship Services function is eliminated, the Legislature should consider transferring the Pre-Apprenticeship Services to the Arizona Department of Transportation.</p>	<p>Not Applicable<sup>1</sup></p>	

<sup>1</sup>This recommendation is not applicable because the Legislature has not taken any action to eliminate the Apprenticeship Services function.

# ARIZONA DEPARTMENT OF COMMERCE

## 24-Month Follow-Up Report To Auditor General Report No. 03-08

### FINDING 1: Commerce’s functions can potentially be eliminated, modified, or transferred (cont’d)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
3. The Legislature should consider options for addressing the following functions:		
<ul style="list-style-type: none"> <li>• <b>International Trade and Investment Office</b>—The Legislature could eliminate funding for this function, retain it, or, similar to the federal program, charge businesses for these services to help it recover a portion of its costs.</li> </ul>	<b>Implemented at 24 Months<sup>1</sup></b>	
<ul style="list-style-type: none"> <li>• <b>Business Attraction and Office of Innovation</b>—The Legislature could eliminate this function, or retain some or all functions within it.</li> </ul>		
<ul style="list-style-type: none"> <li>• <b>Rural Development</b>—The Legislature could eliminate or retain this function.</li> </ul>		
<ul style="list-style-type: none"> <li>• <b>Arizona Film Commission</b>—The Legislature could eliminate this function, or transfer it to the Arizona Office of Tourism.</li> </ul>	<b>Not Implemented</b>	<b>The Legislature has not eliminated or transferred this function.</b>

<sup>1</sup> The Legislature elected to retain the International Trade and Investment Office, Business Attraction and Office of Innovation, and Rural Development.

**ARIZONA DEPARTMENT OF COMMERCE**  
**24-Month Follow-Up Report To**  
**Auditor General Report No. 03-08**

**FINDING 1: Commerce’s functions can potentially be eliminated, modified, or transferred (cont’d)**

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
4. The Legislature should consider eliminating General Fund support for the Arizona Job Training Program.	<b>Implemented at 12 Months</b>	
<p>5. While the Legislature could elect to retain the eight programs above, should it eliminate or transfer these functions, it could also elect to sunset Commerce. If Commerce were sunset, the following five functions should be retained and could be transferred to other state agencies:</p> <ul style="list-style-type: none"> <li>• Transfer the Arizona Job Training Program’s administration to the Department of Economic Security.</li> <li>• Transfer staff support for the Governor’s Workforce Development Council to the Department of Economic Security.</li> <li>• Transfer the Energy Office to the Arizona Department of Housing.</li> <li>• Transfer administration of tax-exempt private activity bonds to the Commerce and Economic Development Commission.</li> <li>• Transfer responsibility for the Arizona Military Airport Regional Compatibility Project and its federal Department of Defense grant to another executive branch agency.</li> </ul>	Not Applicable <sup>1</sup>	

<sup>1</sup> This recommendation not applicable because the Legislature elected to retain the Department.

**ARIZONA DEPARTMENT OF COMMERCE**  
**24-Month Follow-Up Report To**  
**Auditor General Report No. 03-08**

**FINDING 1: Commerce’s functions can potentially be eliminated, modified, or transferred (concl’d)**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Explanation for Recommendations That Have Not Been Implemented</b>
6. If the Legislature elects to terminate Commerce, it should also eliminate Commerce’s administrative functions.	Not Applicable <sup>1</sup>	

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<sup>1</sup> This recommendation not applicable because the Legislature elected to retain the Department.

**ARIZONA DEPARTMENT OF COMMERCE**  
**24-Month Follow-Up Report To**  
**Auditor General Report No. 03-08**

**FINDING 2: The Legislature should consider evaluating tax credit programs before they are renewed or altered**

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. The Legislature should consider modifying the Department of Revenue's statutes to allow more complete reporting of the income tax credit program's fiscal impact on the State.	Not Implemented	The Legislature has not taken any action on this recommendation.
2. The Legislature should consider mandating in statute that a cost-effectiveness analysis be conducted before: <ul style="list-style-type: none"> <li>a. Commerce renews each Enterprise Zone;</li> <li>b. The Governor and/or Legislature renew each Military Reuse Zone; and</li> <li>c. The Legislature renews or revises any Commerce-administered tax incentive program.</li> </ul>	Not Implemented	The Legislature has not taken any action on this recommendation.
3. The Legislature should consider mandating in statute that any Enterprise Zones and Military Reuse Zones that are not found to be cost-effective are terminated.	Not Implemented	The Legislature has not taken any action on this recommendation.
4. The Legislature should consider requiring a cost-benefit analysis of any new tax incentive programs prior to adopting them.	Not Implemented	The Legislature has not taken any action on this recommendation.

**ARIZONA DEPARTMENT OF COMMERCE**  
**24-Month Follow-Up Report To**  
**Auditor General Report No. 03-08**

**SUNSET FACTOR 2: The effectiveness with which the agency has met its objective and purpose and the efficiency with which it has operated**

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. Commerce needs to improve its performance measures to better measure its effectiveness. It should:		
a. Develop a limited number of performance measures that address its service priorities and that more adequately report results, and	<b>Implemented at 18 Months</b>	
b. Use performance measurement data to accurately assess the effectiveness and efficiency of economic development programs.	<b>Implemented at 24 Months</b>	
2. If the Legislature makes statutory changes allowing commerce and the public access to the amount of income tax credits claimed on company returns and requires an assessment of these programs' cost-efficiency, Commerce should develop better measurements of the tax credits' effectiveness.	Not Applicable <sup>1</sup>	

<sup>1</sup> Until the Legislature makes a statutory change, this recommendation is not applicable.