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**Water Infrastructure Finance Authority of Arizona**  
*Arizona's water and wastewater funding source*  
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August 27, 2013

Deborah Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport:

Below please find the Water Infrastructure Finance Authority (WIFA) of Arizona's response to the revised preliminary report draft of the performance audit and sunset review.

**Agency Response to Performance Audit Finding**

**Finding 1:** *"WIFA provides below-market interest rate loans, but its process could reduce cost savings for some borrowers."*

**Recommendation 1.1:** *"To ensure equitable treatment among projects when setting loan interest rates, WIFA should develop an interest rate determination process, defined in its rules, that calculates the combined interest and fee rate independent of other projects. It should be determined as a fixed discount from the current Municipal Market Data Index or prime rate."*

**Response:** The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented. This recommendation, along with Recommendation 1.2, would require WIFA to move from its current one-step automated process to a two-step process. To establish a process that sets the combined interest and fee rate independent of other projects, WIFA will assign the subsidy (discount) based solely on a project's local fiscal capacity and total project points. This will eliminate the comparison of unrelated projects, thereby addressing the intent of the Auditor General recommendation. This approach will also address Recommendation 1.2. WIFA will implement the new process at the start of state fiscal year 2015.

**Recommendation 1.2:** *“WIFA could further subsidize interest rates depending on the merits of the project. For instance, lower rates can be awarded for projects that:*

- a. Serve communities whose median household income is lower than the state median household income;*
- b. Specifically address deficiencies identified by the Arizona Department of Environmental Quality;*
- c. Contain energy-efficient or environmentally innovative aspects; and*
- d. Assist smaller communities.”*

**Response:** The finding of the Auditor General is agreed to and the audit recommendation will be implemented. WIFA’s current scoring methodology does subsidize interest rates based on the merits of a project. When WIFA implements its new method for scoring projects as described in Response 1.1 above, communities will receive the subsidization independent of other projects as recommended. WIFA will implement the new process at the start of state fiscal year 2015.

**Recommendation 1.3:** *“WIFA should modify its Disadvantaged Community designation to eliminate consideration of unrelated projects.”*

**Response:** The finding of the Auditor General is agreed to and the audit recommendation will be implemented. WIFA will modify its Disadvantaged Community Designation policy to assign the designation based solely on a project’s local fiscal capacity points, eliminating the consideration of unrelated projects. WIFA will implement the new process at the start of state fiscal year 2015.

**Recommendation 1.4:** *“The revised process should be tested and evaluated prior to implementation to ensure that it allows WIFA to continue operating without State General Fund appropriations. Following implementation, WIFA should continue to monitor the interest and fee revenues received under the new interest rate determination process to ensure it remains self-sufficient.”*

**Response:** The finding of the Auditor General is agreed to and the audit recommendation will be implemented. WIFA will test and evaluate the revised process prior to implementation. Implementation is planned for the start of state fiscal year 2015.

### **Agency Response to Sunset Factor Analysis Areas for Improvement:**

**Area for Improvement 1:** *“WIFA should update two areas of IT policies and procedures for governing access to its computer systems.”*

**Response:** The recommendation of the Auditor General is agreed to and the audit recommendation will be implemented. The WIFA Board of Directors has approved a policy

that governs staff access to WIFA computer systems. Documentation of procedures is in process and will be completed by December 31, 2013.

**Area for Improvement 2:** *The WIFA website did not state where all physical and electronic public meeting notices would be posted as required by A.R.S. § 38-431.02(A)(1)(a).*

**Response:** The recommendation of the Auditor General is agreed to and the audit recommendation will be implemented. As noted in the revised preliminary report draft, WIFA updated its website to include the statement in September 2012.

The WIFA Board of Directors and staff appreciate the opportunity to respond to the audit findings and recommendations. Thank you for your consideration of WIFA's important role in Arizona.

Sincerely,

Sandra L. Sutton  
Executive Director

cc: Water Infrastructure Finance Authority Board of Directors