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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

June 27, 2017

The Honorable Bob Worsley, Chair
Joint Legislative Audit Committee

The Honorable Anthony Kern, Vice Chair
Joint Legislative Audit Committee

Dear Senator Worsley and Representative Kern:

Our Office has recently completed an 18-month followup of the *Arizona Commerce Authority* (Authority) regarding the implementation status of the 18 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2015 (Auditor General Report No. 15-112). As the attached grid indicates:

- 15 have been implemented;
- 1 is partially implemented
- 1 is in the process of being implemented; and
- 1 is no longer applicable.

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Authority's efforts to implement the recommendations from the September 2015 report.

Sincerely,

Dale Chapman, Director
Performance Audit Division

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Attachment

cc: Sandra Watson, President/CEO
Arizona Commerce Authority

Arizona Commerce Authority Board of Directors

Arizona Commerce Authority Auditor General Report No. 15-112 18-Month Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: Authority can more clearly present its impact on Arizona's economic development

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- 1.1 To help ensure the Legislature and the public can clearly understand the Authority's economic development efforts and results, the Authority should enhance its reporting in the following three ways:
- a. Ensure that it reports the cumulative progress it makes toward its three 5-year goals. For example, it could consider making its summary report that shows the cumulative progress made more readily available to the public by posting it on its Web site. **Implemented at 18 months**
 - b. Clarify in its annual report and other reports it produces whether the information presented on jobs created, wages, and capital investment represents actual activity or commitments. **Implemented at 6 months**
 - c. Develop a report or add information that it can legally report to its existing reports or Web site that better summarizes Arizona's total economic development investment costs and the benefits that the State received as a result of these expenditures. For example, the Authority's report could show by fiscal year the financial incentives Arizona committed to provide on a company-by-company basis along with each company's announced job creation and capital investment commitments. This report should also compare actual job creation and capital investment outcomes to those announced and update this comparison each year to show progress over time. For information that cannot be disclosed on a company-by-company basis, this comparison could be presented in aggregate by combining the information for all the companies to avoid any confidentiality issues. **Implemented at 18 months**
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- 1.2 To ensure compliance with statutory reporting requirements, the Authority should include in its annual Competes Fund report:
- a. Required information, such as jobs committed and created, for each grant recipient for the innovation and rural grants; and **Implemented at 6 months**

Recommendation	Status/Additional Explanation
<ul style="list-style-type: none"> b. The median wage of the jobs each Competes Fund grant recipient created. 	<p>No longer applicable Laws 2016, Ch. 114, amended A.R.S. §41-1545.04 to remove the requirement that the Authority report the median wage of the jobs each Competes Fund grant recipient created.</p>

Finding 2: Competes Fund grant-selection processes generally align with statutes and best practices, but should be formalized and monitoring processes can be improved

<p>2.1 The Authority should enhance its Competes Fund grant-awarding practices by:</p> <ul style="list-style-type: none"> a. Developing and implementing, or continuing with its efforts to develop and implement, comprehensive written procedures for all of its Competes Fund grants; b. Training staff on these written procedures and ensuring that staff follow them; and c. Developing procedures detailing what documentation should be maintained in its files and a final verification process to ensure that all required documentation is in the grant recipient's file. 	<p>Implemented at 18 months</p> <p>Implemented at 18 months</p> <p>Implemented at 18 months</p>
<p>2.2 The Authority should improve its monitoring of all Competes Fund grants by developing and implementing written policies and procedures for verifying grant-recipient-reported milestones and/or outcomes. These policies and procedures should:</p> <ul style="list-style-type: none"> a. Specify what milestone and/or outcome information grant recipients should report; b. Indicate how the Authority should verify submitted information, including the independent sources the Authority should use to verify the reported information; 	<p>Implemented at 18 months</p> <p>Implementation in Progress The Authority has developed written policies and procedures instructing what evidence to use to independently verify the information grant recipients submit to the Authority. Auditors tested five grant recipient files and found that the Authority has taken some steps to verify reported milestones. However, for one of the deal-closing grants that auditors reviewed, the Authority did not fully verify that the grant recipient created 100 new jobs that met all of the qualifications required by the grant agreement, including that some of the positions were newly created in Arizona. In addition, the Authority implemented a new process in August 2016 that requires Arizona Innovation Challenge grant recipients to provide evidence that they have achieved grant milestones. Although auditors observed that the Authority had started to require grant recipients to submit evidence, the process had not been implemented long enough for auditors to observe the process for the full duration of a grant.</p>

Recommendation	Status/Additional Explanation
c. Identify what information the Authority should document in files; and	Implemented at 18 months
d. Specify that grant payments will not be made until the Authority completes and documents the verification process.	Implemented at 18 months
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2.3 The Authority should develop and implement policies and procedures for making changes to grant agreements to help ensure that it consistently addresses changes to the required outcomes specified in the agreements, such as changes in milestones or delays in meeting goals within the required time. These policies and procedures should include:	
a. How it will document the discussions, decisions, and any changes to the grant agreement in the grant files; and	Implemented at 18 months
b. Steps for ensuring that grant recipients report milestone or outcome results or, when such results are not reported, exceptions to the reporting requirements are noted in the Authority's file.	Implemented at 18 months
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Sunset factor #2: The extent to which the Authority has met its statutory objective and purpose and the efficiency with which it has operated.	
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1. The Authority should strengthen its conflict-of-interest practices by:	
a. Ensuring that all authority decision makers comply with its policy to review and sign conflict-of-interest policy acknowledgment forms annually; and	Implemented at 18 months
b. Requiring judges for the innovation grants to sign and submit its policy acknowledgement form and disclose conflicts as required by its policy.	Implemented at 6 months
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Sunset factor #4: The extent to which rules adopted by the Authority are consistent with the legislative mandate.	
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2. The Authority should continue with its efforts to adopt rules to administer research tax credits and for the Computer Data Center Program as required by statute.	Partially implemented at 18 months Although the Authority established rules for its Computer Data Center Program effective as of August 6, 2016, it has not developed rules to administer research tax credits. However, as of December 2016, the Authority had worked with the Arizona Department of Revenue to develop detailed guidelines for the research tax credit that specify income tax credit

Recommendation**Status/Additional Explanation**

limitations, the application process, and the appeals process. According to the Authority, the tax credit has not received any applications since it was created by statute in December 2014. The Authority reported that it plans to use the guidelines it has established and does not plan to develop rules until demand increases.

Sunset factor #5: The extent to which the Authority 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.

3. The Authority should improve its compliance with the State's open meeting law by continuing to ensure its meeting minutes are available within 3 business days and including the required ADA statement related to reasonable accommodation on its meeting notices.

Implemented at 18 months
