



REPORT HIGHLIGHTS PERFORMANCE AUDIT

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

Our Conclusion

The Arizona Commerce Authority (Authority) focuses on growing and diversifying Arizona's economy and marketing Arizona to attract, expand, and retain businesses, and create jobs. The Authority is authorized to use various financial incentives, such as tax credits, grants, and loans, to encourage economic growth in the State. Although the Authority reports on its activities and goals, it should make the summary report on its progress toward its goals more readily available to the public; more clearly indicate in its reports whether the jobs, wages, and capital investment information is based on the commitments companies announce or the actual jobs created and capital investment made; and provide information about the State's actual financial contributions toward economic development compared to the actual economic benefits it receives. Finally, the Authority should continue with its efforts to formalize its grant-awarding processes, better document its compliance with these processes, and strengthen its grant-monitoring processes.

Authority focuses on economic growth—One of the ways the Authority promotes economic growth is to offer grants to attract or retain companies that may relocate to or expand within Arizona and that will provide benefits to the State such as high-quality jobs and/or increases in capital investment. In fiscal year 2014, the Authority reported that it awarded \$4.3 million in deal-closing grants to four companies. These companies committed to create a total of 2,217 jobs in Arizona with an average wage of more than \$67,000. The grant money is paid when grant recipients meet specified milestones. The Authority also awards grants to start-up and early-stage companies seeking to commercialize innovative technologies, and to rural communities to develop their infrastructure to help strengthen their competitiveness for economic growth.

Authority should enhance its reporting—The Authority reports on its progress toward achieving its 5-year goals, which are to create 75,000 higher-wage jobs, increase average wages of jobs created, and increase capital investment by \$6 billion between fiscal years 2013 and 2017. The Authority developed a summary document that reports this progress, but this document is not broadly distributed to the public. In addition, its reports generally provide information based on commitments companies announce rather than the actual jobs created or capital investment made. The Authority should clearly indicate in its reports whether the information presented for jobs, wages, and capital investment represents actual results or commitments. In addition, the Authority has not developed a consolidated report that summarizes the amount of financial incentives Arizona provided compared to the actual economic benefits the State has received.

Authority should include additional statutorily required information in the annual report for the Arizona Competes Fund (Competes Fund)—The Competes Fund provides monies for deal-closing grants, innovation grants for start-ups and early-stage companies, and rural infrastructure project grants. As required by statute, the Authority reports specific information for each deal-closing grant recipient, including the number of jobs each recipient committed to create, the jobs actually created, and the amount of capital investment each company committed to and actually made in the State. However, for the innovation and rural grants, the Authority presents the combined information from all grant recipients rather than for each recipient individually as statute requires. Additionally, although statute requires the Authority to report median wages, it reports average wages.

Recommendations

The Authority should enhance its reporting by:

- Posting its summary report that shows its cumulative progress toward its goals on its Web site;
- Clarifying in its various reports whether the information reported represents companies' announced commitments or actual results;
- Developing a summary report that compares the cost of the financial incentives Arizona provided to the actual economic benefits the State has received; and
- Ensuring that its annual Competes Fund report includes the statutorily required information.



2015

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

Authority has adequate grant-selection processes but should formalize and better document compliance with them—The Authority has established various processes to help ensure it meets statutory requirements for awarding Competes Fund grants. Each of the three grant types has its own process for selecting eligible recipients. For example, for the deal-closing grants, the Authority reviews the entity's financial statements and/or credit reports and independently prepared economic impact statements. For the innovation grants, a panel of judges evaluates and scores the applications as part of a competitive process. For the rural grants, the Authority has developed a checklist to ensure that applicants meet established eligibility requirements. All grant agreements must include performance targets that recipients must meet in order to receive grant payments.

Although these processes are consistent with statutes and/or best practices, the Authority should continue with its efforts to formalize them by developing and implementing comprehensive, written procedures and better document its compliance with the grant-selection processes.

Authority should strengthen its grant-monitoring processes—Although the Authority monitors grant recipients, it has not done so in a consistent manner, lacks uniform monitoring processes, and inconsistently documents its verification efforts. For example, for its deal-closing grants, the Authority reported that it typically spot-checks the grant recipients' self-reported outcomes and verifies them by comparing the outcomes with recipient-supplied employee lists, wage reports, and invoices. However, until June 2015, the Authority did not have a written procedure for verifying reported information for deal-closing grants and lacked documentation that it consistently performed these steps. For innovation grants, the Authority lacks a formal process for verifying self-reported milestone and outcome information. For rural grants, the Authority verifies that milestones are met by checking the submitted receipts or invoices for infrastructure project costs, but does not verify outcomes, such as the number of jobs created or capital investment that resulted from these infrastructure improvements.

Finally, the Authority has not developed guidance for how it will address recipient noncompliance or partial compliance with the grant agreement. For example, for three of eight innovation grants we reviewed, the Authority reduced the amount of the grant payments when milestones were changed to better meet opportunities presented to the companies, but the corresponding grant files did not indicate how the modified payment amounts were decided. In addition, the Authority does not always document its decisions to not enforce reporting requirements for companies that take longer to meet outcomes or milestones. For example, one-deal closing grant recipient did not submit required quarterly progress reports. When asked, the Authority could provide only limited documentation regarding the recipient's failure to file quarterly reports.

Recommendations

The Authority should either develop and implement, or continue with its efforts to develop and implement:

- Comprehensive written procedures for all of its Competes Fund grants;
- Written grant-monitoring policies and procedures; and
- Policies and procedures for making changes to grant agreements and documenting reporting requirement exceptions.