

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.