

# Arizona Department of Housing

## Oversight of Selected Housing Programs

### Initial Followup of Report 24-113

The October 2024 Arizona Department of Housing performance audit was the first of 2 audit reports we issued as a part of the Department's sunset review.<sup>1</sup> Our October 2024 performance audit on oversight of selected housing programs found that the Department inadequately oversaw affordable housing projects we reviewed, including paying grantees more than \$8.1 million without verifying that expenses were adequately supported and for allowable purposes such as delivering needed services to individuals experiencing or at risk of homelessness and not conducting required site inspections to ensure those individuals had safe and sanitary housing. We made **14** recommendations to the Department.

### Department's status in implementing 14 recommendations

Implementation status	Number of recommendations
 In process	14 recommendations

We will conduct an 18-month followup with the Department on the status of the recommendations that have not yet been implemented.

<sup>1</sup> The second audit provided responses to the statutory sunset factors and also found that the Department committed nearly \$1.26 billion toward affordable housing issues in the State in fiscal year 2023 but lacked a comprehensive process to evaluate program performance, limiting its ability to ensure and demonstrate its programs are effectively addressing the State's housing problems, and failed to develop wire transfer procedures to prevent fraud, resulting in a \$2 million fraudulent transfer. For more information on the second audit we issued as part of the Department's sunset review, including any applicable followup reports, see [Report 24-114](#).

# Recommendations to the Department

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## Finding 1: Department failed to provide sufficient oversight for projects we reviewed, including not ensuring grantees used monies to provide safe and sanitary housing or needed services for individuals experiencing or at risk of homelessness

1. The Department should develop and implement a written plan that outlines steps it will take to implement the key practices for providing program oversight consistent with federal and State requirements and recommended practices, including associated completion deadlines for each step. Its written plan should include steps and deadlines for:

- a. Conducting site inspections for all special needs housing projects it administers and oversees, consistent with federal and State requirements.

► Status: **Implementation in process.**

The Department provided a draft written plan with general action steps and completion deadlines for the recommendations in 1a through 1i. However, it is not clear in the draft plan how the Department will ensure the implementation of key practices for providing program oversight that is consistent with federal and State requirements and recommended practices for each of recommendations 1a through 1i.

Regarding site inspections, the Department provided monitoring and procedural guidance for on-site inspections of all Department-funded projects except for service-oriented projects. The Department reported inspections resumed in 2023. The Department reported the use of an inventory tool and tracking inspections to ensure special needs housing projects are in compliance with federal and State requirements. We will further assess the Department's implementation of this recommendation during our next followup.

- b. Verifying that expenses included in payment requests are supported and allowable prior to approving payments to special needs housing and emergency shelter project grantees.

► Status: **Implementation in process.**

The Department provided expenditure policies and procedures regarding eligible activities and verification of expenses prior to payment approval and reported training staff about this. The Department also has draft changes to its special needs housing standard operating procedures (SOPs) it anticipates finalizing by October 2025. We will further assess the Department's implementation of this recommendation during our next followup.

- c. Ensuring special needs housing and emergency shelter project grantees submit required project reports and Department staff review the reports to help ensure grantees are providing the services required by their funding agreements and to identify grantees that need assistance or training. Additionally, Department staff should hold grantees

accountable and take enforcement action when they do not submit required reports and information, such as not approving grantees' payment requests, as necessary.

► Status: **Implementation in process.**

The Department has developed a draft performance tracking tool that is with executive leadership for review. The Department has included draft guidance in its standard operating procedures regarding use of the tool to ensure grantees submit required project reports and Department staff review reports. However, it is unclear how staff will hold grantees accountable if services are not provided and what enforcement actions they will take. The Department reported it expects to implement the tracking tool by August 2025. We will further assess the Department's implementation of this recommendation during our next followup.

- d. Conducting annual risk assessments for special needs housing projects and providing additional monitoring activities for grantees determined to be higher risk.

► Status: **Implementation in process.**

The Department provided draft standard operating procedures that include an updated risk-assessment tool for special needs housing projects that it reported will be used to determine which grantees are at higher risk and require additional monitoring. The Department reported it will implement the tool once it and the associated processes are finalized in or around July 2025. We will further assess the Department's implementation of this recommendation during our next followup.

- e. Developing and implementing a process supported by written policies, procedures, and/or guidance for the inspection of all rental housing development and emergency shelter projects, consistent with recommended practices.

► Status: **Implementation in process.**

The Department provided draft SOPs that include housing inspection standards and time frames and reported they are undergoing review. The Department's draft SOPs detail how inspections will be conducted on all Department-funded projects except for service-oriented projects. The Department indicated it will implement the new SOPs for the Rental Division in July 2025 and the Special Needs Division in December 2025. We will further assess the Department's implementation of this recommendation during our next followup.

- f. Developing and implementing guidance documents for Department staff and grantees for determining whether expenses are allowable based on special needs housing and emergency shelter program requirements and funding agreements and outlining the supporting documentation that should be submitted with payment requests.

► Status: **Implementation in process.**

The Department provided draft SOPs that cover eligible costs and expenses and related valid documentation. According to the Department, it expects to fully implement the SOPs by December 2025 when they have been finalized. We will further assess the Department's implementation of this recommendation during our next followup.

- g.** Developing written policies, procedures, and/or guidance to support the process described in Recommendation 1, part c, for emergency shelter project grantees.

- ▶ Status: **Implementation in process.**

The Department provided draft SOPs that include the project report requirements for grant recipients for special needs housing and emergency shelter projects. The draft SOPs also include detailed procedures for subrecipients in regard to request for payments, reimbursements, and other compliance requirements as well as modifications to subawards, eligibility, and documentation standards. According to the Department, it expects to finalize the draft SOPs for the State Housing Fund in August 2025 and for Continuum of Care in December of 2025. We will further assess the Department's implementation of this recommendation during our next followup.

- h.** Developing and implementing a process supported by written policies, procedures, and/or guidance for conducting and tracking the completion of annual risk assessments for emergency shelter projects, including the implementation of additional monitoring activities for grantees determined to be higher risk, consistent with recommended practices.

- ▶ Status: **Implementation in process.**

The Department provided draft SOPs requiring it to conduct a risk assessment at initial application, with additional monitoring required for higher risk projects. We will further assess the Department's implementation of this recommendation during our next followup.

- i.** Developing and implementing a process supported by written policies, procedures, and/or guidance for using information obtained during its application process to determine additional monitoring activities for rental development project grantees determined to be higher risk, consistent with recommended practices.

- ▶ Status: **Implementation in process.**

The Department reported that it will enhance monitoring for grantees deemed moderate to high risk. It provided a draft risk-assessment matrix and reported that related procedures are being developed. It indicated it expects to fully implement the matrix around December 2025. We will further assess the Department's implementation of this recommendation during our next followup.

- 2.** The Department should ensure the steps outlined in Recommendation 1 are implemented by:

- a.** Requiring program staff to provide frequent and regular reports to the Department director on the progress in implementing the steps outlined in Recommendation 1.

- ▶ Status: **Implementation in process.**

The Department provided documentation showing that program staff have been holding monthly meetings with the Department director regarding the report recommendations. However, since the written plan to implement Recommendations

1a through 1i is not yet finalized and only contains very general steps, the Department may not have as helpful of a tool as it could have to guide these meetings and discussions and ensure the appropriate steps are being taken and sufficient progress is being made to implement the audit recommendations. We will further assess the Department's implementation of this recommendation during our next followup.

- b.** Developing and implementing a process for regular reporting on and review of key oversight metrics by Department leadership to ensure the sustained implementation of program oversight thereafter.

► Status: **Implementation in process.**

The Department has identified 4 key oversight areas: contract monitoring, inspections, performance reports, and risk assessments. It is developing processes for regular reporting by staff and review by Department leadership. However, it is not clear what specific performance metrics Department leadership will monitor and how frequently for each of these areas and to help ensure sustained implementation of program oversight. We will further assess the Department's implementation of this recommendation during our next followup.

- 3.** The Department should evaluate its oversight processes for its other housing programs, such as the State Low Income Housing Tax Credit program, and align them with the oversight recommended practices outlined in this report, including establishing processes for conducting inspections, reviewing payment requests, requiring reports, and conducting risk assessments.

► Status: **Implementation in process.**

The Department provided draft SOPs that update inspections, payment requests, and risk-assessment processes for its other housing programs, such as the State Low Income Housing Tax Credit program. According to the Department, it anticipates fully implementing the SOPs around December 2025 after related processes are finalized. We will further assess the Department's implementation of this recommendation during our next followup.

- 4.** The Department should develop and provide periodic training to all relevant staff on the Department's oversight policies, procedures, guidance, and requirements, including providing training to new staff. As part of its training, the Department should explicitly notify staff that they are required to follow policies and procedures for reviewing payment requests.

► Status: **Implementation in process.**

The Department provided documentation of training it developed related to the Department's oversight policies, procedures, guidance, and requirements and a list of attendees for the training. However, since many of the Department's SOPs are in draft form, the training may need to be updated and staff trained on any changes, and from the list of employee email addresses, it was unclear who attended the training. In addition, the Department's training materials did not explicitly tell staff

that they are required to follow policies and procedures for reviewing payment requests as outlined in its recommendation. We will further assess the Department's implementation of this recommendation during our next followup.

5. The Department should conduct a review of approved and paid payment requests since 2021 to identify unallowable payments made to grantees and recover those monies.

▶ Status: **Implementation in process.**

The Department provided documentation that indicates it has begun a process to conduct reviews of approved and paid payment requests since 2021 to identify unallowable payments made to grantees and recover those monies. Specifically, the Department developed a Request For Payment (RFP) tracker for grant years 2021 through 2024 and reported that it has conducted an initial review of identified RFPs. It further reported that a more in-depth review of identified RFPs will begin in May 2025 and continue throughout the year. Finally, it reported that payments identified as unallowable will be compiled and processed for recovery on a rolling basis. We will further assess the Department's implementation of this recommendation during our next followup.