

ARIZONA
— DEPARTMENT OF —
ECONOMIC SECURITY

Katie Hobbs
Governor

Michael Wisehart
Director

September 25, 2025

Ms. Lindsey Perry, CPA, CFE
Auditor General
Arizona Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

RE: Auditor General's Report, Sunset Factors, Sunset Review

Dear Ms. Perry:

The Arizona Department of Economic Security (DES/Department) has conducted a thorough review of the Auditor General's report and will be implementing the recommendations as documented in the attachment.

The Department is dedicated to cultivating a culture of excellence, accountability, and innovation. Commitment to continuous improvement is integral to DES operations, guiding the refinement of internal processes and the enhancement of service quality. The Department will continue evaluating performance, soliciting feedback, and implementing modifications that advance the mission to better serve the citizens of Arizona.

The Department acknowledges and appreciates the diligence and collaboration demonstrated by the staff of the Office of the Auditor General throughout the Sunset Review process.

If you have any questions, please contact Kathy Ber, Director of Public Affairs, at 602-542-4669 or kber@azdes.gov.

Sincerely,



Michael Wisehart
Director

Attachment

Finding 1: Department did not comply with some State conflict-of-interest requirements, increasing risk that employees and members of public bodies had not disclosed substantial interests that might influence or could affect their official conduct.

Department response: The Auditor General's finding is agreed to.

Recommendation 1: Revise its hard copy conflict-of-interest disclosure form to require disclosures of substantial decision-making interests to help ensure employees comply with statute and include an affirmative no, consistent with recommended practices and ADOA's disclosure form.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will implement a conflict-of-interest policy that includes a requirement to disclose substantial decision-making interests to help ensure employees comply with statute. This requirement will be an annual affirmation to disclose conflicts of interest and secondary employment that might conflict with the Department and require the employee to provide an affirmative yes or no answer.

Recommendation 2: Continue to develop and implement conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and alignment with recommended practices, including requirements for reminding employees at least annually to update their disclosure form if their circumstances change, including attesting that no conflicts exist, if applicable.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will implement a conflict-of-interest policy that includes a requirement for employees to update their disclosure form if circumstances change, and a reminder annually to complete new forms regardless if their circumstances have changed.

Recommendation 3: Continue to develop and implement conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and alignment with recommended practices, including requirements for requiring members of public bodies to fully disclose substantial interests related to meeting agenda items, as required by statute, during public meetings and documenting these disclosures in the public bodies' meeting minutes or a signed disclosure form, including providing disclosures of any specific requirements related to the public bodies, such as those related to ADDPC. The disclosures should include the name of the person with an interest (i.e., public body member or public body member's relative), a description of the interest, and the reason the member is refraining from discussing or otherwise participating in the agenda item.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will implement a conflict-of-interest policy that includes a requirement for members of public bodies to fully disclose substantial interests related to meeting agenda items during public meetings and documenting these disclosures in the public bodies' meeting minutes or a signed disclosure form, including providing disclosures of any specific requirements related to the public bodies.

Recommendation 4: Continue to develop and implement conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and alignment with recommended practices, including requirements for storing all substantial interest disclosures, including disclosure forms and meeting minutes, as applicable, in a special file available for public inspection.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will store all substantial conflict-of-interest forms in a special file available for public inspection. This includes storage of substantial interest disclosures, including disclosure forms and meeting minutes.

Recommendation 5: Continue to develop and implement conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and alignment with recommended practices, including requirements for reviewing and remediating disclosed conflicts.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will implement a conflict-of-interest policy that includes a requirement for reviewing and remediating disclosed conflicts.

Recommendation 6: Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to all employees and members of public bodies on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will develop training on its conflict-of-interest requirements, process, and disclosure form. The Department will provide this training to all employees and members of public bodies.

Sunset factor 2: The Department's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

Department requested information from employers that helped it identify more than \$1.2 million in UI Program overpayments in calendar year 2023 but has not assessed why many employers do not respond to its requests to help improve its overpayment identification.

Department response: The Auditor General's finding is agreed to.

Response explanation: In accordance with the Improper Payment Information Act of 2019, the United States Department of Labor (U.S. DOL) requires Unemployment Insurance (UI) programs to sustain an improper payment rate below 10 percent. Through integrity activities, such as the wage audit notice process, the Department has successfully maintained an average Improper Payment Rate of less than 6 percent since State Fiscal Year 2022.

In Calendar Year 2023, employers responded less frequently to information requests associated with the Quarterly Wage Audits (30 percent response rate) than to Weekly National and State Directory of New Hires crossmatches (70 percent response rate).

- **Quarterly Wage Audits:** Information used for the Quarterly Wage Audits is from two quarters prior, over four months old, given statutory reporting deadlines for employers. When an employer receives an audit information request, the individual may no longer be employed with their company, and/or the employer is receiving multiple wage audits, for multiple individuals, at one time. Responding to quarterly wage audits is administratively burdensome for employers to provide archived employment records.
- **Weekly National and State Directory of New Hires:** Information used for the National and State Directory of New Hires is produced weekly. The earnings information is more timely, which allows for employers to more readily respond with current information.

Federal and state law does not require employers to respond to quarterly wage audits in a specified period of time.

Recommendation 7: Review and assess its wage audit notice process and assess whether changes can be implemented to its processes to increase employer response rates, including reviewing its wage audit notice form to evaluate whether the verbiage or form can be revised.

Department response: The audit recommendation will be implemented.

Response explanation: There is no existing federal or state requirement that mandates an employer's response to a wage audit. However, the Department will review the wage audit notice language to determine, if appropriate, any possible revisions to encourage a higher response rate.

Recommendation 8: Review and assess its wage audit notice process and assess whether changes can be implemented to its processes to increase employer response rates, including collecting, tracking, and evaluating feedback from employers when conducting outreach on unanswered wage audit notices to determine why they have not responded.

Department response: The audit recommendation will be implemented in a different manner.

Response explanation: The Department is aware of why most employers and their third party administrators (TPA) do not respond to a quarterly wage audit.

Responding to quarterly wage audits is administratively burdensome on employers and/or their TPAs if they need to unarchive employment records and potentially complete multiple audit questionnaires. Oftentimes, these individuals are no longer employed by their employers.

In comparison to the new hire audit process, the Department receives state and federal new hire data for cross-matching weekly, which allows new hire audits within a week of the match being received. In this situation, employers or their TPAs have employment

files readily available to complete and respond to the wage audit notice. It is also more likely that the individual is still employed with them and they are more apt to investigate and respond quickly, to help detect and prevent fraud.

There is a process in place for the Department, when contacting employers as part of the wage audit investigation process, to notify employers if they have outstanding wage audit notices due back to the Department. This helps to increase an employer or TPA overall response rate.

Recommendation 9: Review and assess its wage audit notice process and assess whether changes can be implemented to its processes to increase employer response rates, including educating employers on using its UI Program IT system to respond to wage audit notices.

Department response: The audit recommendation will be implemented.

Response explanation: The Department created educational YouTube videos to instruct employers on how to respond to a wage audit notice in CACTUS (UI Program Information Technology (IT) System) and through SIDES. The educational videos were posted on the CACTUS site on September 5, 2025.

Recommendation 10: Review and assess its wage audit notice process and assess whether changes can be implemented to its processes to increase employer response rates, including tracking and monitoring whether the changes it has implemented to its processes increase employer response rates.

Department response: The audit recommendation will be implemented in a different manner.

Response explanation: There is a process in place for the Department, when contacting employers as part of the wage audit investigation process, to notify employers if they have outstanding wage audit notices due back to the Department. This helps to increase an employer or TPA overall response rate. The Department will assess whether there are resources available and value in implementing changes to the process to increase employer response rates to wage audits, whether it be via paper or electronically in the UI Program IT system, which may include tracking and analyzing an employer's response when contacted by the Department.

Department has established homeless service performance measures that include some outcomes and long-term goals, but lacks benchmarks or short-term goals related to these measures, which could help it better assess and improve the effectiveness of its homeless services State-wide.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department will clarify short-term goals and benchmarks that align with performance measures.

Recommendation 11: Implement its fiscal year 2026 strategic plan to develop and track benchmarks and short-term goals for its existing homeless service performance measures.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will develop and track benchmarks for existing homeless service system performance measures.

Department developed a process and requirements to audit work performed by DDD triage nurses, which could help it monitor and provide DDD triage nurses with feedback and guidance to ensure incidents are appropriately triaged, but Department lacked a documented procedure for its process and did not always complete the audits.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department does have a defined performance management system for Triage leadership to audit the work performed by the Triage Nurses and used this in a pilot project.

Recommendation 12: Develop and implement procedures to outline its DDD triage audits.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will implement standard work to define the audit process and oversight of the work performed by the Triage Nurse to make the pilot permanent.

Department has developed processes to help ensure APS investigations are timely and consistently initiated and completed, but can further improve its tracking of initial contact with alleged victims and is in the process of improving its cross reporting to other entities involved in protecting vulnerable adults.

Department response: The Auditor General's finding is agreed to.

Response explanation: As demonstrated in the report, Adult Protective Services (APS) continually seeks out opportunities to innovate its investigatory and protective services processes. Timely initial contact with alleged victims and cross reporting are important to APS and the Department appreciates the discussion contained in the report.

Recommendation 13: Develop and implement a process to annually track the timeliness of APS investigators making initial contact with alleged victims, including tracking the percentage of investigations assigned to each priority level that have met priority level time frames for making initial contact and the range of time to make initial contact for investigations with untimely contact, and identifying and addressing common causes of untimely contact.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has begun taking steps to implement this recommendation.

Recommendation 14: Continue to develop and implement its new cross-reporting system for APS investigations.

Department response: The audit recommendation will be implemented.

Response explanation: As indicated in the report, APS has proactively automated cross-reporting to two key system partners and is exploring opportunities to expand that automation.

Department has taken steps to implement federal corrective action plans to reduce improper Supplemental Nutrition Assistance Program (SNAP) benefit payments.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department is operating under an approved Food and Nutrition Service (FNS) corrective action plan to reduce the Supplemental Nutrition Assistance Program (SNAP) improper payment rate.

Recommendation 15: Continue to develop and implement improper payment reduction efforts, consistent with FNS-required corrective action plans, to reduce the State's SNAP improper payment rate and meet requirements in federal law.

Department response: The audit recommendation will be implemented.

Response explanation: The Department's corrective action plan outlines the activities the Department will take to reduce improper SNAP benefit payments. This plan is regularly reviewed for progress by FNS.

Department did not update its UI Program IT system to reflect statutory eligibility changes resulting in \$2.4 million in overpayments that the Department waived and thus did not recover.

Department response: The Auditor General's finding is agreed to.

Response explanation: Laws 2021, Chapter 412 included six different material sections affecting the administration of the UI Benefit and UI tax programs. Provisions under five of the sections were successfully implemented by their associated effective dates. The Department notes that during the implementation process, the analysis of provisions resulted in an unidentified but required change to the UI benefits system. Once identified, the Department prioritized the necessary change to system coding, and the change was implemented in December 2023. Any resulting overpayment was categorized as 'administrative' and the debt was waived in accordance with federal and state law.

Recommendation 16: Continue to implement its procedures that require Department staff from both the UI tax and UI benefit units to assess statutory changes to confirm whether it impacts their portion of the program.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has implemented written standard work for the analysis of legislative measures for implementation. The standard work, which has been shared with the Auditor General's Office, provides an integrated and more comprehensive review process.

Department did not timely reimburse all employers impacted by overpayments caused by Department errors until our audit.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department acknowledges it did not effectuate the reimbursement owed to impacted employers. Although business requirements were drafted to process reimbursements owed to impacted employers, the ad-hoc system processing of the business requirements was not completed. The Department has since developed and implemented procedures to validate system processing.

Recommendation 17: Continue to implement its procedures for testing and verifying UI Program IT system changes.

Department response: The audit recommendation will be implemented.

Response explanation: In June 2025, the Department developed and implemented procedures to validate system processing.

Department did not timely resolve unemployment insurance and public assistance appeals in accordance with federal or State requirements, which could impact claimants'/clients' ability to resolve issues with receiving benefits.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department reports the timeliness of appeals to the appropriate agency as mandated by federal regulation. The data collected and reported during this time period show that the timeliness of appeals did not meet the requirements outlined in the regulations.

Recommendation 18: Continue its efforts to address its corrective action plans with DOL and FNS to improve its appeals timeliness.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will engage with federal and state partners to continue to address backlog and case age issues outlined in corrective action plans with the intent of improving appeals timeliness. The Department is committed to leveraging all available resources, including technology and personnel, as well as continually improving both the effectiveness and efficiency of the appellate process.

Department has not implemented our previous recommendations to develop State-required IT policies and procedures.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department has an ongoing commitment to safeguarding our systems and sensitive data. We have experienced several years of challenges with a dedicated technical policy role which has now been successfully established to address IT policies as of March 2025. Between March and June 2025, all IT policies underwent a

revision and / or rewrite to the current Arizona Department of Homeland Security (ADOHS) published standards. In addition, a bi-annual review process will be used commencing to include a risk assessment across the agency; findings to be prioritized for policy updates. Following successful publication of the updated policies and standards currently anticipated for October 2025, the Department will rewrite or create procedures for each of the published policies and standards.

Recommendation 19: Require its Chief Information Security Officer to develop and implement a written plan that outlines key steps it will take to develop and implement all required IT security procedures in line with ADOHS requirements, including outlining associated completion deadlines and assigned staff responsibilities.

Department response: The audit recommendation will be implemented.

Response explanation: The Department Chief Information Security Officer will develop a written plan that addresses how the agency will adhere to ADOHS requirements. The plan will include associated timelines and staff assignments. The plan will be developed and reviewed with the Chief Information Officer by November 30, 2025 and annually thereafter.

Department determined that Department employees at Arizona@Work offices should have read-only access to some UI Program IT systems, but users have privileges greater than read-only.

Department response: The Auditor General's finding is agreed to.

Response explanation: To better assist unemployment claimants, some ARIZONA@WORK staff have access to the UI Program IT systems. The Department recognizes that certain staff members had differing access than read-only. The Department will revise permissions to align with business requirements.

Recommendation 20: Review all Arizona@Work employee access to the UI Program IT systems and ensure access and privileges provided to these employees are appropriate.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will review and revise permissions to align with business requirements. The process in which system access is requested and authorized will also be revised to ensure system access is aligned with business requirements.

Sunset factor 3: The extent to which the Department's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises.

Although the Department is responsible for regulating childcare home providers and DHS regulates childcare group homes and childcare centers, both have regulatory responsibilities that may have overlap.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department and DHS both have statutory responsibilities for regulating child care facilities and programs. The Department agrees to the benefits of conducting an analysis to review opportunities for increasing efficiency and reducing duplication between the two agencies.

Recommendation 21: Work with DHS and stakeholders to reassess and examine the costs and benefits of consolidating their childcare regulatory functions and share any options to increase the efficiency and/or reduce or better manage fragmentation, overlap, and duplication identified during the analysis with relevant entities, including the Legislature, regardless of its conclusions regarding consolidation.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will work with DHS to assess the costs and benefits of consolidating child care regulatory functions and share any options to increase efficiency and/or reduce or better manage fragmentation, overlap, and duplication.

Recommendation 22: If the Department determines that it would be worthwhile pursuing consolidation, it should take the next steps to move toward consolidation, including seeking the necessary approval to proceed with consolidation and working with stakeholders and the Legislature to develop and execute an implementation plan.

Department response: The audit recommendation will be implemented.

Response explanation: Upon completion of the shared analysis between the Department and DHS and examination of the costs and benefits of consolidating child care regulatory functions with stakeholders, if consolidation of any child care regulatory functions would be beneficial, the Department will work toward the next steps for development of a plan.

Department has not established a process to jointly monitor homeless service providers with the Arizona Department of Housing (ADOH), which could allow providers to receive reimbursement from both agencies for the same services.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department will engage with the Arizona Department of Housing to explore joint monitoring and other risk mitigation strategies when both agencies contract with the same organization for similar services.

Recommendation 23: Develop and implement a process to coordinate with ADOH to identify providers that receive funding from both agencies and ensure reimbursement submissions contain appropriate allocations and that the provider is not receiving reimbursement for more than 100% of its allowable costs.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will develop and implement processes that coordinate with the Arizona Department of Housing to identify providers that receive funding from both agencies and provide payment safeguards.

Sunset factor 4: The extent to which rules adopted by the Department are consistent with the legislative mandate.

Department has not developed rules required by 4 statutes.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department is aware of its statutory obligations and is engaged in the rulemaking process for A.R.S. §§36-568, 36-592, 46-219, and 46-452.01.

Recommendation 24: Adopt rules as required by A.R.S. §§36-568, 36-592, 46-219, and 46-452.01.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will adopt rules as required by A.R.S. §§36-568, 36-592, 46-219, and 46-452.01.

Sunset factor 5: The extent to which the Department has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

Department improperly denied 2 public records requests before requesting additional information from a requestor; has not updated its policies and procedures to outline new processes; and could further enhance its public records policies and procedures to align with recommended practices.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department acknowledges the opportunities identified.

Recommendation 25: Update and implement its public records policies and procedures to help it comply with the public records law and recommended practices, and reflect new processes since implementing the public records portal, including procedures and guidance for when staff should require the confidential records release form or any other relevant forms, including how long requestors should be given to provide the completed form before the request is closed.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will update and implement public records policies and procedures for processing public record requests, to include procedures for processing a request in the DES Records Request Portal, and guidance on when to request additional information and the time frame to allow the requestor to provide such information.

Recommendation 26: Update and implement its public records policies and procedures to help it comply with the public records law and recommended practices, and reflect new processes since implementing the public records portal, including procedures and guidance for providing requestors with an anticipated time frame for providing requested records,

based on the Department's resources, nature of the request, content of the records, and location of the records, and notifying the requestor of any delays, as necessary.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will update and implement its public records policies and procedures to help it comply with the public records law and recommended practices, and will create static messaging providing requestors with an anticipated time frame for providing requested records as appropriate.

Department and the public bodies it supports did not list the meetings' location in the minutes for 2 meetings we observed, as required by statute.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department reviewed the minutes of the two meetings and agrees that the minutes did not include the meeting locations.

Recommendation 27: Finalize and implement its draft open meeting law policies and procedures.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will finalize and implement updates to the Open Meeting Law policy and procedures.

Sunset factor 6: The extent to which the Department timely investigated and resolved complaints that are within its jurisdiction.

Department generally received and resolved grievances and quality-of-care concerns against home- and community-based service (HCBS) providers timely but has not updated its rules to reflect its process for receiving complaints.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department has received and resolved complaints timely but has not yet updated its rules to reflect the updated process for receiving complaints.

Recommendation 28: Modify its rules to reflect its processes for receiving and investigating complaints against HCBS providers.

Department response: The audit recommendation will be implemented.

Response explanation: The Department intends to engage in rulemaking to accurately reflect the current process for receiving and investigating complaints against HCBS providers.

Department's Ombudsman timely responded to most complaints it received in fiscal year 2024, but the client service division's client advocates did not respond to

Department Ombudsman complaints in accordance with Department-established time frames for 39% of complaints.

Department response: The Auditor General's finding is agreed to.

Response explanation: See response explanations for recommendations 25 and 26.

Recommendation 29: Expand the reporting capabilities in its complaint- handling IT system, such as by developing dashboards and/or reports to track and monitor whether the Department Ombudsman and client advocates are meeting required time frames for handling complaints and/or initiating contact with a complainant.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will work to expand system reporting capabilities to ensure timely resolution of complaints. The current reporting functionality identifies the status and disposition of each logged complaint. The Department will work to ensure all complaints are logged and assigned to a liaison within two business days of receipt.

Recommendation 30: Develop and implement a process with associated policies and procedures to send reports to each division's leadership on the client advocates' timeliness in addressing Department Ombudsman complaints, including outlining how each division should respond when its client advocates are not meeting Department Ombudsman time frames.

Department response: The audit recommendation will be implemented.

Response explanation: With the implementation of new software tracking and monitoring, the Department will now have regular reports available to distribute to divisional leadership around timeliness and the total number of complaints received. The report includes a breakdown of the number of complaints by division/program, the complaint categories, and the top complaints across all programs.