

Arizona Department of Housing

Initial Followup of Sunset Review Report 24-114

The October 2024 Arizona Department of Housing Performance Audit and Sunset Review was the second of 2 audit reports we issued as part of the Department's Sunset Review.¹ Our performance audit and sunset review found that the Department committed nearly \$1.26 billion toward affordable housing issues in the State in fiscal year 2023 but lacks 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. We made **16** recommendations to the Department and **1** recommendation to the Board of Manufactured Housing.

Department's status in implementing 16 recommendations

Implementation status	Number of recommendations
 Implemented	2 recommendations
 In process	10 recommendations
 In process in a different manner	1 recommendation
 Not yet applicable	1 recommendation
 Not implemented	2 recommendations

¹ The first performance audit 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. For more information on the first audit we issued as part of the Department's sunset review, including any applicable followup reports, see Report 24-113.

Board of Manufactured Housing’s status in implementing 1 recommendation

Implementation status	Number of recommendations
 In process	1 recommendation

The Joint Legislative Audit Committee (JLAC) has directed our Office to conduct the Department’s next sunset review, which is due October 1, 2026. As a result, rather than conducting a separate followup of the 15 outstanding recommendations, we will conduct work to follow up on the Department’s and Board of Manufactured Housing’s efforts to implement the outstanding recommendations during the Department’s sunset review. Therefore, unless otherwise directed by JLAC, we have concluded our separate followup work on the outstanding recommendations from the October 2024 report.²

Recommendations to the Department

Finding 1: Department’s goals and performance measures for some housing programs need improvement, and it lacks a process to systematically and comprehensively evaluate program performance, limiting its ability to ensure and demonstrate its programs are effectively addressing the State’s housing problems

- 1. The Department should develop and implement a formal plan to revise its Balance of State Continuum of Care goals, targets, and review of performance measures and outcomes to include:
 - a. Measurable goals and targets with benchmarks for reviewing desired performance.

► Status: **Implementation in process.**

The Department developed a draft plan with steps for annually establishing and/or updating the goals for its Balance of State Continuum of Care program and for reviewing progress toward those goals throughout the year. Additionally, the Department has developed draft measurable goals with targets and benchmarks for fiscal year 2026. For example, the Department developed a draft goal for reducing the number of individuals placed in permanent housing that return to homelessness within 6 months from 8% to 7%. The Department finalized its goals in August 2025.

Additionally, Laws 2025, Ch. 241, §12, effective September 26, 2025, requires the Department to establish and implement a comprehensive performance measurement system that includes annual goals with measurable benchmarks for each housing program in Arizona, mechanisms for data collection and review to assess the effectiveness of the housing programs it administers, and reporting requirements regarding program performance outcomes.

² Pursuant to A.R.S. §41-3027.09, the Department terminates on July 1, 2027.

We will further assess the Department's implementation of this recommendation during its sunset review, which is due by October 1, 2026.

- b.** Tracking and reviewing performance measures and outcomes on an established time frame.

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

- See explanation for recommendation 1a.

- c.** Time frame for updating goals.

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

- See explanation for recommendation 1a.

- 2.** The Department should develop and implement a process to systematically track its permanent supportive housing expenditures, including processes for establishing permanent supportive housing expenditure input, output, and outcome measures for each Department program with permanent supportive housing goals.

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

- The Department developed a spreadsheet to track expenditures for its permanent supportive housing projects. However, it has not included related output or outcome measures as part of its tracking, such as the number of individuals that received permanent supportive housing or the number of housing units that were funded for each project. According to the Department, it plans to finalize its process for tracking its permanent supportive housing expenditures and then update its applicable policies and procedures with instructions and guidance for staff by the end of calendar year 2025. We will further assess the Department's implementation of this recommendation during its sunset review, which is due by October 1, 2026.

- 3.** The Department should develop and implement a documented comprehensive performance measurement system Department-wide and for its programs, including Department-wide and program-specific guidance that includes processes for:

- a.** Establishing specific and measurable Department-wide and program performance goals or targets and performance measures to track and evaluate goal and target outcomes.

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

- The Department maintains program performance data in separate manual and automated systems and reported it is in the process of compiling and evaluating its data from these systems. The Department also reported it plans to establish and/or modify Department-wide and program-specific goals and targeted outcomes once it has finished evaluating its data. Additionally, the Department developed a draft program performance template for collecting performance metrics and goals

for each of its programs that it plans to implement in fiscal year 2026. Finally, the Department reported that it is working on identifying a single IT system that can incorporate Department-wide and program-specific performance measures and goals and plans to fully implement the IT system in fiscal year 2027.

Additionally, Laws 2025, Ch. 241, §12, requires the Department to establish and implement a comprehensive performance measurement system that includes annual goals with measurable benchmarks for each housing program in Arizona, mechanisms for data collection and review to assess the effectiveness of the housing programs it administers, and reporting requirements regarding program performance outcomes.

We will further assess the Department's implementation of this recommendation during its sunset review, which is due by October 1, 2026.

- b.** Systematically tracking and assessing performance measures and outcomes for all Department-wide and program performance goals and targets.

▶ Status: **Implementation in process.**

See explanation for recommendation 3a.

- c.** Conducting periodic evaluations of the Department and each program to assess the extent to which the Department and Department programs are meeting their intended purposes and make timely modifications to those programs as necessary.

▶ Status: **Implementation in process.**

See explanation for recommendation 3a.

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

- 4.** The Department should develop and implement policies and procedures that require:

- The use of a secure method to obtain and verify wire transfer bank instructions.
- All changes in wire transfer bank instructions to be reviewed and approved by Department management prior to processing wire transfers.
- Timely notification to the Auditor General and other relevant State and law enforcement agencies when it becomes aware of potential fraud, theft, waste, and/or abuse, consistent with the SAAM.

▶ Status: **Implementation in process.**

The Department developed and reported it began implementing policies and procedures for its wire transfer process that includes steps for obtaining and verifying wire transfer bank instructions. For example, the Department's policies

and procedures indicate that after receiving an invoice or request for payment from a grantee, a Department accounting supervisor must verify grantee contact information and banking details and contact the grantee to ask for verbal and written confirmation of the banking details. Additionally, the policies and procedures require supervisory review and approval for all wire transfers, as well as a test wire transfer before the requested amount is transferred. Further, the Department has developed draft procedures for timely notifying various State agencies, including notifying the Department of Administration, the Auditor General, the Attorney General, and the applicable law enforcement agency within 1 business day when it suspects or becomes aware of potential fraud, waste, and/or abuse, consistent with SAAM.

Additionally, Laws 2025, Ch. 241, §12, requires the Department to establish secure wire transfer protocols to mitigate fraud risks such as dual authorization for all wire transfers exceeding \$10,000, and reconciling and auditing all wire transfers monthly. Finally, the Department is required to report any instance of fraudulent activity involving State monies to the Governor, Joint Legislative Budget Committee, and the Auditor General within 10 business days, and initiate restitution efforts within 30 days after identifying fraudulent activity.

We will further assess the Department's implementation of this recommendation during its sunset review, which is due by October 1, 2026.

5. The Department should develop and implement periodic training for all relevant staff on the updated policies and procedures related to wire transfers.

► Status: **Implementation in process.**

The Department developed and conducted wire fraud training for staff to understand the Department's fraud policies and how to properly report suspected wire fraud. Additionally, the Department reported that it will incorporate the wire fraud training for relevant staff during initial onboarding and annually thereafter. However, although the wire fraud training had some information mentioning wire transfer procedures, the Department has not developed additional training on its wire transfer policies and procedures. We will further assess the Department's implementation of this recommendation during its sunset review, which is due by October 1, 2026.

6. The Department should revise and implement its policies and procedures for developing proposed fees to include a process to identify the costs of specific activities for which manufactured housing and building fees are charged and developing proposed fees for the Board that are commensurate with these costs, consistent with fee setting standards and guidelines.

► Status: **Not implemented.**

In its response to our October 2024 sunset review, the Department reported that it would not implement this recommendation. As reported in our October 2024 sunset review, inconsistent with fee-setting standards and guidelines, the Department's policies and procedures for developing proposed fees for the Board of Manufactured Housing

lacked requirements and processes for identifying the costs of specific regulatory activities associated with each fee, such as the cost of processing an application for a manufacturer license or the cost of conducting a manufacturer site inspection. As a result, the Department has not implemented a process to identify the costs of specific activities for which manufactured housing and building fees are charged, and its fees may not be commensurate with the costs of its regulatory functions.

Finally, Laws 2025, Ch. 241, §12, requires the Department to engage with the Board of Manufactured Housing to review regulatory fees associated with manufactured housing in Arizona to ensure alignment between the fees and regulatory costs and that any fee changes shall be approved by the Board of Manufactured Housing.

We will further assess the Department's implementation of this recommendation during its sunset review, which is due by October 1, 2026.

7. The Department should comply with the reporting requirements outlined in Arizona Revised Statutes (A.R.S). §41-3955.

▶ Status: **Implemented at 12 months.**

The Department revised its fiscal years 2024 and 2025 Housing Trust Fund Expenditure Reports pursuant to A.R.S. §41-3955 to include requirements outlined in statute, including the location of the facilities when applicable and the number of individuals benefiting from the operation, construction, or renovation of the facility, and the individuals who benefited from housing assistance provided who have been determined to be seriously mentally ill.

8. The Department should align its federal Low Income Housing Tax Credit program report pursuant to A.R.S. §35-728(D) with recommended practices by developing, evaluating, and reporting outcome measures related to the program's performance.

▶ Status: **Implementation in process in a different manner.**

As discussed in recommendation 3a, the Department reported that as part of its efforts to develop a comprehensive performance measurement system it is working on identifying an IT system that can incorporate Department-wide and program-specific performance measures and goals. According to the Department, its new comprehensive performance measurement system will include goals and outcome measures for evaluating the federal Low Income Housing Tax Credit program's effectiveness. The Department reported that rather than including this information in its federal Low Income Housing Tax Credit program report, it plans to include the information in a separate report, pursuant to Laws 2025, Ch. 241, §12. Specifically, Laws 2025, Ch. 241, §12, requires the Department to quarterly report to the President of the Arizona State Senate and the Speaker of the Arizona House of Representatives on program performance outcomes, suggested improvements for affordable housing, reductions in homelessness, and other key metrics.

We will further assess the Department's implementation of this recommendation during its sunset review, which is due by October 1, 2026.

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

9. The Board should adopt rules as required by A.R.S. §§41-4032, 41-4036, and 41-4030. If the Board and/or Department believe that changes to these statutory requirements are needed to remove the requirement to establish rules, they should work with the Legislature to modify statute.

► Status: **Implementation in process.**

The Department has developed proposed changes to A.R.S. §§41-4032, 41-4036, and 41-4030 that would remove the requirement to establish rules. Further, the Department held meetings with industry representatives in November 2024 and January 2025 and reported that it reviewed draft language related to the statutory changes. However, as of August 2025, the Department had not worked with the Legislature to modify statute but reported that it would seek statutory changes during the 2026 Legislative session. We will further assess the Department's implementation of this recommendation during its sunset review, which is due by October 1, 2026.

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.

10. The Department should comply with its public records request policies and procedures, including providing written notice to requestors when a public records request will take more than 5 business days to fulfill.

► Status: **Implementation in process.**

Our review of 28 public records requests the Department received between March 2025 and May 2025 found that the Department fulfilled 22 of 28 requests in 5 days or less. However, for 3 requests that took between 12 days and 30 days to fulfill, the Department did not notify the requestors that it would take more than 5 business days to fulfill the requests. According to the Department, these 3 public records requests were made when the Department was transitioning to a new public records request platform and Department staff were in the process of gaining access to and receiving training on the updated platform. For the remaining 3 requests, the Department asked for additional information from the requestor in order to fulfill the request, but later closed these requests because it did not receive a response.

We will further assess the Department's implementation of this recommendation during its sunset review, which is due by October 1, 2026.

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

- 11.** The Department should assign responsibility to resolve consumer-manufactured home complaints within 120 days, as required by federal regulations, or work with HUD to update or develop and implement additional written policies, procedures, and/or guidance for determining when to pause the 120-day time frame.

► Status: **Not yet applicable.**

Although the Department reached out to HUD, it determined that it would not modify its policies, procedures, and/or guidance related to consumer-manufactured home complaints, including for determining when to pause the 120-day time frame.

Additionally, according to the Department's tracker for manufactured home complaints, it received 5 complaints between November 2024 and April 2025. However, the Department reported that none of the complaints required responsibility to be assigned to a licensee due to ongoing communication between the consumers and licensees. As a result, we were unable to assess whether the Department assigned responsibility to resolve consumer-manufactured home complaints within 120 days.

Laws 2025, Ch. 241, §12, requires the Department to resolve all complaints related to manufactured housing within HUD guidelines as well as establish a tracking system that monitors complaint resolution timelines.

We will further assess whether the Department has assigned responsibility to resolve consumer-manufactured home complaints within 120 days during its sunset review, which is due by October 1, 2026.

- 12.** The Department should work with HUD to update or develop and implement additional written policies, procedures, and/or guidance to include time frames for all steps in its manufactured home complaint process, including when the Department should contact licensees to timely notify them of complaints.

► Status: **Not implemented.**

As explained in recommendation 11, the Department reached out to HUD, but made the determination that it would not update its policies, procedures, and/or guidance related to its manufactured home complaint process.

Sunset Factor 8: The extent to which the Department has established safeguards against possible conflicts of interest.

- 13.** The Department should continue to implement the annual conflict-of-interest process it developed during the audit, including requiring all staff to complete a conflict-of-interest form annually, reviewing all forms to determine whether there are any substantial interest disclosures, and maintaining a special file of all substantial interest disclosures.

► Status: **Implemented at 12 months.**

The Department has continued to implement its conflict-of-interest process it developed during the audit. Specifically, according to a Department tracker, all 95 Department employees completed a conflict-of-interest form between January and April 2025. Additionally, our review of a sample of 10 employees found that all 10 had completed a disclosure form pursuant to the Department's policy.³ The Department also reviewed all of the disclosure forms and determined that none of its staff had disclosed a substantial interest. Further, our review of the disclosure forms for the previously described sample of 10 employees found that the disclosures in these 10 forms were made by 3 employees who reported having a relative who worked for another State agency. Finally, the Department established a special file to maintain all substantial interest disclosures. Although our review of the special file found that it contained no disclosure forms, the Department reported that it had determined no disclosures of substantial interest had been made in calendar year 2025, as of August 2025.⁴

³ We requested 5 judgmentally selected forms completed by executive staff and 5 randomly selected forms from the remaining Department staff.

⁴ Effective September 26, 2025, Laws 2025, Ch. 241, §12, requires all Department staff to complete a conflict-of-interest disclosure form annually. Additionally, the Department is required to review each form to determine any substantial interest disclosures and maintain a special file containing all substantial interest disclosures. We will assess the Department's compliance with these requirements during its sunset review, which is due by October 1, 2026.