

Arizona Department of Housing

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

Performance Audit and
Sunset Review

October 2024
Report 24-114

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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October 1, 2024

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Ms. Joan Serviss
Arizona Department of Housing

Transmitted herewith is the Auditor General's report, *Arizona Department of Housing—Sunset Review*. This report is in response to a November 21, 2022, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the Arizona Department of Housing agrees with most of the findings and plans to implement or implement in a different manner all but 4 of the 13 recommendations. The Department indicated it would not implement 4 recommendations related to reporting outcomes to the Legislature; and manufactured housing and building fee setting and complaint handling. My Office will follow up with the Arizona Department of Housing in 6 months to assess its progress in implementing the recommendations. I express my appreciation to Ms. Serviss and Department staff for their cooperation and assistance throughout the audit.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Arizona Department of Housing

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

Audit purpose

To determine whether the Department has developed a comprehensive performance management system consistent with recommended practices, and to respond to the statutory sunset factors.

Key findings

The Department:

- Has several statutory responsibilities related to housing issues in the State, including addressing housing issues of low- and moderate-income families and special needs populations, housing affordability, and decaying housing stock; and maintaining and enforcing quality standards for manufactured homes and factory-built buildings.
- Committed federal and State monies and tax credits totaling approximately \$1.26 billion in fiscal year 2023 intended to help address affordable housing issues in the State.
- Lacks a comprehensive process to track and evaluate its programs' performance, limiting its ability to ensure its programs are addressing the State's housing problems, and can improve its outcome reporting to the Legislature.
- Failed to develop wire transfer policies and procedures to prevent and detect fraud, theft, waste, and abuse, resulting in a fraudulent transfer of \$2 million from the State Housing Trust Fund in 2023, although it received an insurance payment to cover the loss of these monies.
- Addressed some of our 2011 recommendations related to manufactured home and factory-built building fees but lacked processes for identifying costs associated with regulatory activities for each fee, resulting in it proposing fees to the Board of Manufactured Housing that may not be commensurate with its regulatory costs.
- Did not assign responsibility to manufactured home licensees to correct or repair defects in manufactured homes within 120 days for 2 of 10 complaints we reviewed, as required by federal regulations.

Key recommendations

The Department should develop and implement policies and procedures for:

- Measuring its programs' performance, processes for establishing specific and measurable goals or targets, and tracking and assessing performance measures and reporting outcomes to the Legislature.
- Ensuring Department wire transfers are secure.
- Identifying the costs of its manufactured housing and buildings regulatory activities and proposing fees that are commensurate with these costs; and assigning responsibility to resolve consumer-manufactured home complaints within 120 days, as required by federal regulations.

The Department indicated it would not implement 4 recommendations related to reporting outcomes to the Legislature; and manufactured housing and building fee setting and complaint handling.



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INTRODUCTION

The Arizona Auditor General has released the second in a series of 2 audit reports of the Arizona Department of Housing (Department) as part of the Department's sunset review. The first performance audit determined whether the Department's oversight of selected housing programs in calendar years 2021 through 2023 was consistent with federal and State requirements and best practices.¹ This sunset review determined whether the Department has developed a comprehensive performance management system, consistent with recommended practices. This sunset review report also includes responses to the statutory sunset factors.

Mission and responsibilities

The Department was established in 2002, and its primary statutory responsibilities include establishing policies, procedures, and programs to address affordable housing issues in the State, including housing issues of low- and moderate-income families and special needs populations, housing affordability, and decaying housing stock; providing financial, advisory, consultative, planning, training, and educational assistance to the State's political subdivisions and other entities for the development of affordable housing; and maintaining and enforcing quality standards for manufactured homes, mobile homes, and factory-built buildings (see textbox for the Department's mission).^{2,3,4} The Department is also responsible for administering monies allocated to the State from various State and federal programs and funds, including from the U.S. Department of Housing and Urban Development (HUD) (see Appendix A, pages a-1 through a-6, for more information about Department-administered programs and funds).⁵ The Department's activities related to these responsibilities include:

Department mission

Funding quality affordable housing and community revitalization to benefit all Arizonans and ensuring safe manufactured buildings throughout the State.

Source: Department website.

- **Distributing monies and awarding tax credits intended to support affordable housing development**—Pursuant to various federal and State requirements, the Department is responsible for distributing monies and awarding tax credits from various State and federal programs and funds for the purpose of supporting the construction, rehabilitation, or acquisition of affordable rental housing for low- to moderate-income households (see Appendix A, pages a-1 through a-6, for more information about Department-administered programs and funds). For example, in fiscal year 2023, the Department awarded

¹ See Arizona Auditor General report 24-113 *Arizona Department of Housing—Oversight of selected housing programs*.

² A.R.S. §41-3953(A).

³ According to A.R.S. §41-3951, low and moderate income means household income that is insufficient to secure decent, safe, and sanitary housing provided by private industry without subsidized financing and that is below respective income limits established by the Department, taking into consideration factors including the total income of the household available for housing needs and the size of the household.

⁴ The Department generally does not provide direct services or monies and instead acts as a "pass-through" agency and distributes these monies and tax credits to other governmental and private entities, such as housing developers and nonprofit organizations that directly provide housing and community development projects and services. According to the Department, monies can be distributed to these entities as grants, where the Department issues an award letter to the grantee and sets aside those committed monies for a project and/or activity. The Department then distributes committed monies to awardees on a reimbursement basis.

⁵ HUD is the federal agency responsible for national policy and programs related to housing needs, community development, and fair housing laws.

more than \$866 million in federal tax credits to private entities through the federal Low Income Housing Tax Credit program, a U.S. Internal Revenue Service program intended to incentivize private investment in affordable housing by providing federal tax credits to developers for qualified affordable housing projects.^{6,7} Additionally, the Department also awarded more than \$18.7 million in State tax credits to private entities through the State Low-Income Housing Tax Credit program, a State program the Department reported is intended to incentivize the construction of more affordable units in the State by providing State tax credits to developers for projects that qualify for the federal Low-Income Housing Tax Credit program. The Department is also responsible for administering the State Housing Trust Fund, which comprises State-appropriated monies that can be used to support affordable housing development, such as through loans to housing developers that qualify for the federal Low-Income Housing Tax Credit program.⁸ According to the Department's fiscal year 2023 annual report, it assisted with the development of 4,856 units of affordable multifamily rental housing in fiscal year 2023 by awarding tax credits from the federal Low-Income Housing Tax Credit program and State Low-Income Housing Tax Credit program, and distributing monies from the State Housing Trust Fund.

- **Administering federal monies intended to provide shelter, supportive services, and permanent housing assistance to individuals and families experiencing or at risk of homelessness in 13 Arizona counties**—The Department is the administrative agency overseeing the Balance of State Continuum of Care, 1 of 3 federal Continuum of Care programs in the State, established to promote community-wide planning for addressing homelessness by providing monies through a competitive grant process to pay for shelter, housing assistance, and supportive services for individuals and families experiencing or at risk of homelessness (see Arizona Auditor General report 24-113 for more information on the Department's grant award and oversight processes). Specifically, the Department is responsible for awarding and distributing federal monies and entering into agreements with grantees, such as nonprofits or local governments, that provide services in the State's 13 nonmetro counties.^{9,10} Pursuant to their grant agreements, grantees should work directly with program participants to provide services, such as permanent supportive housing, which is long-term housing assistance that includes supportive services, such as life skills training, for qualified individuals and/or households (see Questions and Answers, pages 15 through 20, for more information about permanent supportive housing).
- **Distributing monies from the State Homeless Shelter and Services Fund**—The Department distributes monies through a competitive grant process from the Homeless Shelter and Services Fund, a State fund established by Laws 2023, Ch. 141, §3, for projects that provide shelter and services to persons who are experiencing homelessness (see Appendix A, page a-5, for more information about the Homeless Shelter and Services Fund). For example, according to the Department's fiscal year 2023 annual report, it committed approximately \$1.8 million in Homeless Shelter and Services Fund monies to assist with the development or rehabilitation of shelters impacting 147 households in the State.

⁶ For the federal Low Income Housing Tax Credit program, the Internal Revenue Service allocates federal tax credits to housing finance authorities in each state that the housing finance authority then awards to qualified projects to incentivize private investment in affordable rental housing projects, including the acquisition, rehabilitation, or new construction of affordable rental housing. Pursuant to A.R.S. §35-728(B), the Department is the State's entity authorized to award the federal tax credits to qualified projects in Arizona.

⁷ Federal Low Income Housing Tax Credits reduce a developer's tax liability for a 10-year period. In exchange for receiving the tax credits, the developer is required to hold a certain number of housing units for lower-income households for a specific time frame, which is typically 30 years. Developers often sell their tax credits to outside investors, including financial institutions, to access immediate funding needed to help cover the cost of land acquisition and construction for their affordable housing projects. Developers typically use federal tax credits in combination with other sources of financing, such as grants from government or nonprofit entities and/or loans from financial institutions to cover the costs associated with construction, rehabilitation, or acquisition of affordable housing.

⁸ State Housing Trust Fund monies can also be used for providing housing opportunities for qualified households, such as rental assistance vouchers.

⁹ The Department serves as the Unified Funding Agency for the Balance of State Continuum of Care, which allows it to apply for and receive grant monies from HUD for the entire Balance of State Continuum of Care. The Department then distributes the grant monies to subrecipients (grantees), such as nonprofits or government entities.

¹⁰ The State's 13 nonmetro counties are Apache, Cochise, Coconino, Gila, Graham, Greenlee, La Paz, Mohave, Navajo, Pinal, Santa Cruz, Yavapai, and Yuma. The State's 2 remaining counties, Maricopa County and Pima County, are each served by other Continuum of Care programs.

- **Overseeing grantees' use of monies intended to provide housing and supportive services—**Pursuant to various federal and State requirements, the Department is responsible for overseeing the recipients of grant monies it has awarded, such as local jurisdictions and nonprofit organizations. The Department's key oversight responsibilities include conducting site inspections, reviewing grantee expenses to determine if they are allowable prior to approving reimbursements, reviewing grantee progress reports to ensure they are meeting agreement deliverables, and conducting risk assessments of each grantee (see Arizona Auditor General report 24-113 for information about problems we identified with the Department's oversight practices).
- **Regulating the manufactured housing and factory-built building industry—**Since 2016, the Department has been statutorily responsible for regulating the State's manufactured housing and building industry, including maintaining and enforcing quality and safety standards for manufactured homes, factory-built buildings, and mobile homes (see textbox for key terms).¹¹ For example, the Department is responsible for licensing manufactured home and factory-built building dealers, installers, and manufacturers, issuing installation permits for manufactured homes and/or factory-built buildings, and conducting installation inspections for installation permit holders.¹² Additionally, statute authorizes the Department to collect various fees related to its regulatory responsibilities, including for inspections, licensing, and permitting (see Sunset Factor 2, page 22, for issues we identified with the Department's process for establishing manufactured housing and factory-built building fees). Further, HUD has authorized the Department to administer its State complaint process for manufactured homes, including enforcing compliance with HUD-established requirements for complaints regarding manufactured home defects, such as structural, electrical, or plumbing issues.

Manufactured housing and factory-built building industry key terms

Manufactured homes—Homes built in a factory on or after June 15, 1976, based on federal standards.

Mobile homes—Homes built in a factory before June 15, 1976, prior to the adoption of the federal manufactured housing standards.

Factory-built buildings—Residential or commercial buildings that are built off-site but installed, completed, or both, on-site.

Source: Auditor General staff review of A.R.S. §41-4001, and Department and HUD websites.

- **Administering federal Section 8 programs—**Pursuant to A.R.S. §41-3953, the Department acts as the Public Housing Agency for Yavapai County and the Section 8 Project-Based Contract Administrator for the State.¹³ As a Public Housing Agency, the Department is responsible for administering and providing rental assistance vouchers to Yavapai County residents participating in HUD's Section 8 Housing Choice Voucher program, which provides subsidized housing through rental assistance vouchers for low-income families, the elderly, and disabled individuals; and HUD's Section 8 Veterans Affairs Supportive Housing program, which provides subsidized housing through rental assistance vouchers and supportive services

¹¹ Effective August 6, 2016, Laws 2016, Ch. 128, transferred these responsibilities to the Department from the Department of Fire, Building and Life Safety.

¹² According to the Department, it partners with 59 local jurisdictions that conduct installation inspections and permit issuance within their jurisdictions.

¹³ According to A.R.S. §41-3953, as the designated Public Housing Agency for the State, the Department can accept federal housing assistance monies and participate in the housing assistance programs, including the Section 8 Housing Choice Voucher program, for areas of the State that do not have an existing public housing authority. As of July 2024, Yavapai County is the only area of the State without an existing public housing authority. Additionally, according to A.R.S. §41-3953, the Department can also accept federal housing assistance monies to act as the contract administrator for properties receiving Section 8 project-based rental housing assistance in all areas of the State.

for veterans.¹⁴ According to the Department's 2023 annual report, it committed \$1,230,800 in Section 8 Housing Choice Voucher program monies and provided rental assistance to 244 households in Yavapai County during fiscal year 2023. Additionally, according to the Department, in fiscal year 2023 it committed approximately \$500,000 in Section 8 Veterans Affairs Supportive Housing program monies and provided rental assistance to 84 households in Yavapai County.

Additionally, as the Section 8 Project-Based Contract Administrator for the State, the Department is responsible for providing contract administration services on HUD's behalf for properties receiving project-based rental assistance, including issuing monthly voucher payments to property owners providing Section 8 housing and ensuring that resident complaints related to health and safety issues are resolved by property owners (see Sunset Factor 6, pages 28 through 29, for more information on the Department's complaint-handling responsibilities). According to the Department's 2023 annual report, it committed approximately \$71 million in Section 8 project-based rental assistance monies and provided rental assistance to over 8,000 households across the State.

- **Distributing monies intended to support housing affordability, community revitalization, and homeowners**—The Department is authorized to distribute monies from various federal and State programs and funds intended to address housing affordability issues for Arizona renters and homeowners and support community revitalization. For example, the Department can distribute monies from the HUD Community Development Block Grant program to grantees, such as cities and towns, to support community development projects, such as sidewalk and street improvements, or the construction of community centers. Further, the Department can distribute monies from the U.S. Department of Health and Human Services' Low-Income Home Energy Assistance Program and the U.S. Department of Energy's Weatherization Program to grantees to install weatherization improvements, such as energy-efficient improvements to help low-income residents maintain low heating and cooling costs. According to the Department's fiscal year 2023 annual report, it distributed approximately \$50.4 million in monies from these 2 programs that provided 4,574 Arizona households with weatherization improvements in fiscal year 2023.

Organization and staffing

As of February 2024, the Department had 83 filled full-time equivalent positions (FTEs) and 9 vacancies, and is organized into the following 5 divisions:

- **Director's Office (8 FTEs, 0 vacancies)**—Responsible for overseeing the Department and included the Department's cabinet executive officer/executive deputy director; a deputy director responsible for overseeing the Department's Operations Division; 3 assistant deputy directors responsible for overseeing the Department's Housing and Community Development Division, Section 8 and Compliance Division, and Manufactured Housing and Building Division (see below for information on these divisions); an executive assistant; a public information officer; and a legislative liaison.
- **Housing and Community Development Division (24 FTEs, 1 vacancy)**—Responsible for administering programs for rental housing development, including awarding federal and State tax credits to affordable housing developers to promote the development of affordable rental housing. Additionally, this division is responsible for community revitalization, housing rehabilitation, and special needs housing, such as supportive housing for people experiencing homelessness. As part of its responsibilities, this division administers the federal Low Income Housing Tax Credit program tax credits and carries out the Department's responsibilities related to the Balance of State Continuum of Care.

¹⁴ Individuals or families participating in HUD's Section 8 Housing Choice Voucher and Veterans Affairs Supportive Housing programs can choose any housing that meets the programs' requirements, such as meeting minimum health and safety requirements established by HUD. HUD's Section 8 project-based rental housing assistance also provides rental assistance for low-income individuals and families by subsidizing rents in specific housing properties through contracts between HUD and the property owners. The Department then administers these contracts on behalf of HUD as the Section 8 Project-Based Contract Administrator for the State.

- **Section 8 and Compliance Division (15 FTEs, 3 vacancies)**—Responsible for administering Section 8 programs that provide subsidized housing for low-income individuals and families. This division is also responsible for performing long-term monitoring of compliance with federal requirements for various programs, such as properties receiving federal tax credits.
- **Manufactured Housing and Building Division (20 FTEs, 4 vacancies)**—Responsible for carrying out the Department's regulatory responsibilities for manufactured housing and factory-built buildings, including issuing licenses and conducting inspections. This division also performs administrative duties for the Board of Manufactured Housing.
- **Operations Division (16 FTEs, 1 vacancy)**—Responsible for providing human resources, procurement, accounting and finance, and information technology and data management for the Department.

Statute also establishes the Board of Manufactured Housing (Board), which is responsible for establishing construction, installation, and permanent foundation requirements for factory-built buildings and manufactured homes, and establishing and maintaining licensing standards for manufactured home and factory-built building manufacturers, dealers, brokers, installers, and salespersons.^{15,16} Statute requires the Board to consist of 9 Governor-appointed members, and the Board had 8 members and 1 vacancy as of June 2024.¹⁷ Statute requires the Board to hold meetings at least annually, and the Board held 2 public meetings in calendar year 2023.¹⁸

Consistent with federal regulation, the Balance of State Continuum of Care Governance Advisory Board (Advisory Board) was established to provide planning, coordination, and direction for the use of Continuum of Care monies on behalf of the Balance of State Continuum of Care.¹⁹ The Balance of State Continuum of Care Governance Charter requires the Advisory Board to consist of 15 members, including the Department's special needs program administrator; representatives from 3 Arizona State agencies, including the Arizona Department of Education, the Arizona Department of Economic Security (DES), and the Arizona Health Care Cost Containment System (AHCCCS); representatives from nonprofit organizations; an individual with a lived experience of homelessness; and a representative from a Native American/American Indian tribal community.²⁰ According to the Balance of State Continuum of Care Governance Charter, the Advisory Board must meet at least quarterly.

Revenues and expenditures

As shown in Table 1, pages 6 through 9, the Department has various revenue sources, including State General Fund appropriations, federal aid, unclaimed property sales, various fees, including licensing fees and other charges for services, interest income, and loan proceeds. The Department's State General Fund revenues increased in fiscal year 2023 when it received additional monies, which included \$10 million to establish a homeless services grant pilot program to provide services to reduce homelessness and a \$60 million one-time deposit to the State Housing Trust Fund. The Department estimated its State General Fund revenues would

¹⁵ A.R.S. §41-4009(A).

¹⁶ Additionally, the Board is responsible for establishing in rule the fees the Department develops for inspections, licenses, permits, plan reviews, administrative functions, and certificates.

¹⁷ According to A.R.S. §41-4009, the Board's 9 members must include 1 member representing manufactured home manufacturers, 1 member representing factory-built building manufacturers, 1 member representing the manufactured home/factory-built building installation industry, 1 member representing manufactured home park owners, 1 member representing financial institutions, 1 member representing manufactured home/factory-built building dealers and brokers, and 3 members of the public, at least 1 of whom resides in a mobile or manufactured home and is a resident of a mobile home park or manufactured home park. According to the Department, as of June 2024, 1 public member position had been vacant since January 2024.

¹⁸ A.R.S. §41-4009.

¹⁹ 24 CFR 578.5(b).

²⁰ According to 24 CFR 578.5(b) and 578.7(a)(3), a Continuum of Care must establish a written process for selecting members who are representative of the relevant organizations serving homeless populations and include at least 1 homeless or formerly homeless individual. The Advisory Board adopted the Balance of State Continuum of Care Governance Charter to fulfill this requirement.

increase to more than \$214 million in fiscal year 2024, including a \$150 million one-time deposit to the State Housing Trust Fund and various other increases, such as a \$40 million one-time deposit to the Homeless Shelter and Services Fund to be used to fund programs that provide shelter and services for unsheltered persons experiencing homelessness.

The Department estimated its fiscal year 2024 expenditures will total approximately \$297 million, consisting primarily of various housing project disbursements and other aid (see Table 1, footnotes 17, 18, and 19, for additional information about some of these expenditures), professional and outside services, payroll and related benefits, and other operating expenses.

Table 1
Schedule of revenues, expenditures, and changes in fund balances
Fiscal years 2022 through 2024
(Unaudited)

	2022 (Actual)	2023 (Actual)	2024 (Estimate)
Revenues			
State General Fund appropriations			
State Housing Trust Fund deposit ¹		\$60,000,000	\$150,000,000
Homeless Shelter and Services Fund deposit ²			40,000,000
Homeless Services Grant Pilot ³		560,313	3,326,444
Homeless Shelter and Services ⁴			14,053,090
Mobile Home Relocation Fund deposit ⁵			5,000,000
Military Transitional Housing Fund deposit ⁶			1,900,000
Total State General Fund appropriations		60,560,313	214,279,534
Intergovernmental revenues			
Federal pandemic aid ⁷	219,235,879	38,399,110	29,938,218
Other federal aid ⁸	98,402,520	103,887,105	127,480,249
Filing fees ⁹	4,335,829	7,697,526	9,153,360
Fees and charges for services	2,635,594	1,897,732	2,200,591
Unclaimed property sales ¹⁰	2,500,000	2,500,000	2,500,000
Manufactured housing revenues ¹¹	2,090,505	2,507,223	2,964,590
License, fees, permits	683,699	324,223	12,500
Fines and penalties	5,040	102,650	9,850
Interest income ¹²	302,883	3,072,139	7,617,973

Table 1 continued

	2022 (Actual)	2023 (Actual)	2024 (Estimate)
Loan proceeds ¹³	12,684,637	9,579,223	10,830,236
Other revenues	17,602	32,309	5,510
Gross revenues	342,894,188	230,559,553	406,992,611
Transfers from AHCCCS ¹⁴		815,218	
Net credit card fees	(51,213)	(64,804)	(77,990)
Total revenues	342,842,975	231,309,967	406,914,621
Expenditures			
Payroll and related benefits ¹⁵	6,878,942	7,936,799	8,584,056
Professional and outside services			
Third-party processing ¹⁶	3,483,558	5,804,088	1,460,566
Other professional and outside services	1,851,943	1,572,718	1,297,758
Travel	140,835	216,653	198,484
Food	111,761		
Homeless Shelter and Services Fund disbursements ¹⁷			19,105,399
Homeless services grant disbursements		560,313	3,326,444
State Housing Trust Fund disbursements ¹⁸	17,498,828	21,446,764	47,303,471
Section 8 programs ¹⁹	73,952,553	71,949,811	72,363,541
Homeowner Assistance Fund disbursements	19,274,029	107,922,820	54,648,304
Other aid ²⁰	58,898,212	67,318,120	79,239,664
Other operating	2,892,927	1,596,898	2,568,443
Capital equipment	659,028		126,916
Noncapital equipment	107,559	1,293,247	2,587,999
Transfers to DES	984,198	1,505,932	
Transfers to Governor's Office	25,000	25,000	30,000
Other transfers out	(14,972)	46,350	4,152,101
Total expenditures and transfers out	186,744,401	289,195,513	296,993,146

Table 1 continued

	2022 (Actual)	2023 (Actual)	2024 (Estimate)
Net change in fund balances	156,098,574	(57,885,546)	109,921,475
Fund balances, beginning of year	105,894,278	261,992,852	204,107,306
Fund balances, end of year	\$261,992,852	\$204,107,306	\$314,028,781

- ¹ Laws 2022, Ch. 313, §49, appropriated \$60 million in State General Fund monies to the Department for deposit in the State Housing Trust Fund. The Department is required to distribute these monies in the form of grants to cities, towns, and counties in Arizona, including \$20 million for projects in counties other than Maricopa and Pima and \$4 million to the Navajo and Hopi tribal nations. Additionally, Laws 2023, Ch. 133, §49, appropriated \$150 million to the Department for deposit in the State Housing Trust Fund and required the Department to submit an expenditure plan report for these monies to the Joint Legislative Budget Committee (see Sunset Factor 5, pages 27 through 28, for more information on the required expenditure plan report).
- ² Laws 2023, Ch. 133, §49, appropriated \$40 million to the Department for deposit in the Homeless Shelter and Services Fund.
- ³ Pursuant to the Laws 2022, Ch. 313, §49, the Department received a \$10 million State General Fund appropriation to establish a homeless services grant pilot program for cities, towns, and counties in Arizona to provide services to reduce homelessness. The Department used approximately \$560,000 of these appropriated monies in fiscal year 2023 and estimated it used approximately \$3.3 million in fiscal year 2024. Pursuant to Laws 2024, Ch. 209, §56, this appropriation is exempt from the provisions of A.R.S. §35-190 relating to lapsing of appropriations.
- ⁴ Laws 2023, Ch. 133, §104, appropriated \$20 million to the Department for programs that provide shelter and services to unsheltered persons experiencing homelessness. The Department estimated it used approximately \$14 million of these appropriated monies in fiscal year 2024.
- ⁵ Laws 2023, Ch. 133, §49, appropriated \$5 million to the Department for deposit in the Mobile Home Relocation Fund to provide assistance to homeowners and/or tenants for the cost of relocating their home from its existing mobile home park to a new location under certain conditions, such as if the mobile home park will be closed or redeveloped, if there is a qualifying rent increase, or if there are changes to the mobile home park's age restriction.
- ⁶ Laws 2023, Ch. 133, §49, appropriated \$1.9 million to the Department for deposit in the Military Transitional Housing Fund to provide transitional housing opportunities for military members separating from the military.
- ⁷ Federal pandemic aid revenues primarily consisted of Homeowner Assistance Fund, State and Local Fiscal Recovery Fund, and COVID-19 Community Development Block Grant program monies (see Appendix A, pages a-2 through a-4, for more information about the Homeowner Assistance Fund, State and Local Recovery Fund, and the Community Development Block Grant program).
- ⁸ Other federal aid consisted of monies received for various programs, including Section 8 programs and the Community Development Block Grant program. The Department received an increase in monies for some federal programs in fiscal year 2024, including increases in National Housing Trust Fund and HOME Investment Partnership monies (see Appendix A, pages a-2 through a-4, for more information).
- ⁹ Filing fee revenues primarily consisted of filing fees that are collected from developers who apply for or reserve federal tax credits through the Low-Income Housing Tax Credit program. The Department reported that these revenues vary from year to year based on various factors, such as the date when funding is available.
- ¹⁰ The State's Unclaimed Property Act, established in part by A.R.S. §§44-301 through 44-338, requires the deposit of certain unclaimed assets, including the proceeds from the sale of those assets, into a fund managed by the Arizona Department of Revenue. Pursuant to A.R.S. §44-313, \$2.5 million from this Arizona Department of Revenue fund was deposited into the State Housing Trust Fund in fiscal years 2022 through 2024.
- ¹¹ Manufactured housing revenues consisted of license, permit, and inspection fees related to the Department's regulation of manufactured homes and factory-built buildings, as authorized by A.R.S. §41-4010(A)(4).
- ¹² According to the Department, most of the increase in interest income in fiscal years 2023 and 2024 was generated from the monies deposited into the interest-bearing State Housing Trust Fund. See footnote 1 for more information.
- ¹³ The Department reported the loan proceeds are derived from various programs, such as the HOME Investment Partnership. The Department also reported it receives loan proceeds from repayments of loans provided for affordable housing projects completed by local governments, nonprofits, or private housing developers.
- ¹⁴ In fiscal year 2023, the Department received \$815,218 from AHCCCS' Seriously Mentally Ill Housing Trust Fund to administer a housing project on its behalf.
- ¹⁵ Payroll and related benefits increased in fiscal year 2023 because the Department was appropriated additional monies to provide its employees a 10 percent salary increase as authorized by Laws 2022, Ch. 313, §124. According to the Department, it filled 12 additional employee positions in fiscal year 2024.

Table 1 continued

¹⁶ In fiscal years 2022 and 2023, the Department expended approximately \$3.5 million and \$5.8 million, respectively, for a third-party contractor to help implement the temporary Homeowner Assistance Fund program, including assisting with processing applications submitted by homeowners and operating a call center to answer questions on the program. In fiscal year 2024, the Department reported its payments to the third party were reduced because the program stopped accepting new applications in November 2023.

¹⁷ Homeless Shelter and Services Fund disbursements were for various purposes, such as providing shelter through hotel leasing agreements or safe outdoor spaces. See Appendix B, pages b-12 through b-14, for more information on the Department's use of Homeless Shelter and Service Fund monies.

¹⁸ State Housing Trust Fund disbursements were for various purposes, such as to assist with rental housing development and provide special needs housing. See Appendix B, pages b-2 through b-11, for more information on the Department's use of State Housing Trust Fund monies.

¹⁹ Section 8 programs expenditures were related to the Department's administration of its Section 8 programs that provide rental assistance for low-income families, the elderly, the disabled, and veterans. In addition, as the Section 8 Project-Based Contract Administrator for the State, the Department issues monthly rental assistance to property owners that provide Section 8 project-based housing.

²⁰ According to the Department, other aid consisted of disbursements to entities, such as counties, municipalities, nonprofits, or private housing developers, for various State and federal programs.

Source: Auditor General staff analysis of the Arizona Financial Information System/AZ360 *Accounting Event Transaction File* and the State of Arizona *Annual Financial Report* for fiscal years 2022 and 2023, and Department-prepared estimates for fiscal year 2024.



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

Comprehensive performance measurement system is important for agencies to determine whether their programs are achieving intended outcomes

Literature recommends that government agencies should identify goals, relevant measures, and benchmarks for their programs' performance and then track them by regularly collecting data on its measures as part of a comprehensive performance measurement system (see textbox for definition).²¹ Literature also recommends that agencies evaluate program performance to help determine whether programs are working as intended and to identify areas for improvement. For example, recommended practices identify a range of activities to assess program performance, including periodically reviewing performance measures to determine whether a program is producing desired outcomes for its population, assessing whether its existing

Comprehensive performance measurement system—Systematic processes for collecting, monitoring, and reviewing data related to a program's activities, services, and outcomes. Comprehensive performance measurement should include processes for establishing program performance goals and targets, tracking and evaluating performance measures, and adjusting the program or services, as needed.

Source: NSAA, 2004; OMB, 2018; Pew-MacArthur Results First Initiative. (2014). *Evidence-Based policymaking: A guide for effective government*. Retrieved 3/25/2024 from <https://www.pewtrusts.org/-/media/assets/2014/11/evidencebasedpolicymakingaguideforeffectivegovernment.pdf>; Pew-MacArthur Results First Initiative, 2018; GAO, 2023; Urban Institute, n.d.

²¹ Government Finance Officers Association (GFOA). (2018). *Best practices: performance measures*. Retrieved 3/25/2024 from <https://www.gfoa.org/materials/performance-measures>; Office of Management and Budget (OMB). (2018). *Performance measurement and evaluation*. Retrieved 1/23/2024 from <https://www.evaluation.gov/assets/resources/Performance-Measurement-and-Evaluation.pdf>; Pew-MacArthur Results First Initiative. (2018). *The role of outcome monitoring in evidence-based policymaking*. Retrieved 1/23/2024 from <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2018/08/the-role-of-outcome-monitoring-in-evidence-based-policymaking>; United States Government Accountability Office (GAO). (2023). *Evidence-Based policymaking practices to help manage and assess the results of federal efforts*. Retrieved 3/25/2024 from <https://www.gao.gov/assets/830/827710.pdf>; Urban Institute. (n.d.). *Quantitative data analysis*. Retrieved 1/23/2024 from <https://www.urban.org/research/data-methods/data-analysis/quantitative-data-analysis/performance-measurement-and-management>; National State Auditors Association (NSAA). (2004). *Best practices in performance measurement: Developing performance measures*. Retrieved 1/24/2024 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Developing_Performance_Measures.pdf

programs and strategies align with the agency's long-term outcomes, or conducting research studies to determine whether a program is effective.²²

Additionally, HUD and the National Alliance to End Homelessness (NAEH) have developed guidance specific to housing programs. For example, according to HUD, an agency's goals should be specific, measurable, action-oriented, realistic, and time-bound.²³ Further, NAEH recommends that measurable program goals should avoid vague language such as "increase" or "decrease" as the measurement.²⁴

Department has goals and performance measures for some of its housing programs, but they need improvement, and it has not developed a process to systematically and comprehensively evaluate its programs to determine if they are effectively addressing the State's housing problems

Department has developed some goals and performance measures for some of its housing programs, but they are not consistent with recommended practices and need to be improved—

The Department operates multiple housing programs whereby it committed federal and State monies and tax credits totaling approximately \$1.26 billion in fiscal year 2023 (see Appendix A, pages a-1 through a-6, and Introduction, pages 1 through 9, for more information). These programs are targeted at various populations, such as individuals who are low and moderate income, experiencing or at risk of homelessness, or have been diagnosed with AIDS. Additionally, these programs are meant to help the Department meet its key statutory objective of addressing affordable housing issues in the State, including housing low- and moderate-income families and special needs populations, and improving housing affordability and decaying housing stock. Although the Department has developed goals and performance measures for some of its housing programs we reviewed, several are inconsistent with recommended practices and need to be improved. For example, the Department:

- **Lacks specific goals, performance targets, and data necessary to assess program outcomes for the Balance of State Continuum of Care program due to a 4-year implementation gap, inconsistent data management, and grants management system limitations—**In December 2022, the Department developed a strategic plan for the Balance of State Continuum of Care program, which was the first time it had adjusted and/or developed a new strategic plan for the program in 4 years.²⁵ The plan has an overall goal to end homelessness in the Balance of State Continuum of Care program's geographic area, outlines 9 objectives for 2023 and 2024, and includes several strategies related to each objective. However, many of the strategies lack specific, measurable, and time-bound goals for evaluating whether the Balance of State Continuum of Care program's activities and services are working as intended and producing desired outcomes related to its goal of reducing or ending homelessness. For example, the Department's strategies to meet an objective related to identifying and providing shelter and housing to unsheltered individuals include vague language, such as "expand outreach/navigation services," "use data to assess its effectiveness," and review "the percent of eligible households placed in permanent supportive

²² OMB, 2018; Pew-MacArthur Results First Initiative, 2018; Urban Institute, n.d.

²³ According to HUD, there is no use setting goals that are impossible to achieve, and ensuring that goals are realistic includes considering various agency-specific elements such as monies and staff available to support the program. U.S. Department of Housing and Urban Development (HUD). (n.d.). *Lessons from the ground: Best practices in fair housing planning: Developing specific and measurable goals*. Retrieved 4/3/2024 from <https://www.hudexchange.info/programs/fair-housing/best-practices-in-fair-housing-planning/setting-goals-and-tracking-progress/developing-specific-and-measurable-goals/>

²⁴ National Alliance to End Homelessness (NAEH). (2016). *Rapid re-housing: Performance evaluation and improvement toolkit*. Retrieved 3/26/2024 from <http://endhomelessness.org/wp-content/uploads/2016/06/rrh-evaluation-and-improvement-toolkit.pdf>

²⁵ The Department did not develop a strategic plan for the Balance of State Continuum of Care program between December 2018 and December 2022. The Department reported that staff turnover and changes in Department leadership may have contributed to the Department not developing or adjusting goals for the program for 4 years.

housing," and do not include measurable targets or time frames for implementing or completing the strategies.²⁶

According to the Department, because of staff and leadership turnover during the 4 years that it had not adjusted or developed new goals, the Department inconsistently managed data, and it lacked baseline data necessary to set measurable goals. As of July 2024, the Department reported it was in the process of obtaining baseline data for Balance of State Continuum of Care program performance during program year 2023 and that it planned to establish program goal targets for program year 2024, which began July 1, 2024. However, as of July 2024, the Department had not updated the Balance of State Continuum of Care program strategic plan for program year 2024 to include program goal targets, and the Department reported it would update it in August 2024.²⁷ Additionally, the Department reported that it planned to begin reviewing the status of progress toward accomplishing its goals and outcomes on a standard time frame, but as of July 2024 the Department had not yet established a review time frame in its Balance of State Continuum of Care program's strategic plan.

Finally, the Department's Balance of State Continuum of Care strategic plan includes various goals and strategies related to increasing the availability and use of permanent supportive housing. However, the Department has not systematically tracked some data necessary for assessing its activities related to achieving these goals and strategies. Specifically, as discussed in this report's Questions and Answers (see pages 15 through 20), the Department reported that although it can identify its permanent supportive housing expenditures on a project-by-project basis, it has not systematically tracked its permanent supportive housing expenditures or other related input, output, or outcome measures, such as permanent supportive housing expenditures per individual.²⁸ According to the Department, it has not systematically tracked these expenditures because permanent supportive housing is not a project type in its grants management system.

- **Has developed some performance measures for its Rental Housing Development Program but lacks outcome measures for assessing the overall effectiveness of the Program**—Although the Department tracks some performance measures for its Rental Housing Development Program, it has not developed outcome measures to assess the effectiveness of some key program activities and the overall effectiveness of the program. For example, although the Department tracks the number of urban and rural housing units developed, which are output measures, it does not track outcome measures that would help it determine whether this program is producing desired outcomes for the intended population. An example of a potential outcome of a program that develops rental housing units for low-income individuals could be whether these housing units reduce the number of individuals on urban and rural affordable housing waitlists. Further, according to Department staff, they track construction milestones and completion, which can help assess the speed at which and whether housing units are available for individuals and/or families. However, the Department tracks these measures only at the individual project level and does not compile or track this information at the program level to help it determine whether housing units are being developed at an adequate rate needed to address affordable housing needs, which could also be a potential program outcome.

Department has not developed a comprehensive performance measurement system to evaluate the effectiveness of its housing programs—The Department has not developed a formal process to systematically or comprehensively evaluate whether its housing programs and services are working

²⁶ As defined by 24 CFR 578.3 and 578.37(a)(1)(i), permanent supportive housing is long-term housing assistance combined with supportive services to assist homeless individuals or families, in which one adult or child has a disability, to live independently. See Questions and Answers, pages 15 through 20, for more information.

²⁷ The Department developed a Balance of State Continuum of Care program strategic plan for program year 2024 that was approved in June 2024.

²⁸ Other Department programs that can distribute monies and/or tax credits to support permanent supportive housing projects, such as the Rental Housing Development Program, are also impacted by the Department's lack of tracking. Therefore, these Department programs do not have the data necessary for assessing their activities related to permanent supportive housing. See Questions and Answers, pages 15 through 20, for more information.

effectively together to address the State's housing problems. For example, the Department does not have a plan, document, or structure in place for outlining, measuring, and reviewing housing program goals, outputs, and outcomes for the range of housing programs it offers in a systematic or comprehensive manner. Further, the Department lacks Department-wide policies and program-specific procedures to guide staff on using a comprehensive performance measurement system, including how to establish program performance goals or targets and performance measures to track and evaluate goals and target outcomes or how frequently to collect, monitor, and review data related to a program's activities and outcomes.

According to the Department, it believed that it had processes in place for agency management to determine whether its programs were working as intended and to identify areas for improvements, including an agency-wide strategic plan and an associated tracker to monitor its progress in implementing the strategies in the plan. Although some of the strategies in the Department's strategic plan include activities carried out by its housing programs, such as utilizing the State Low-Income Housing Tax Credit to increase financing for new low-income housing units, similar to the Balance of State Continuum of Care strategic plan, many of the strategies lack specific, measurable, and time-bound goals for evaluating how well they are working and if they are improving the State's housing problems, and if not, assessing what modifications are needed to those measures and goals. According to the Department, as of July 2024 it was in the process of revising its agency-wide strategic plan to include outcomes and specific, measurable, and time-bound goals. The Department reported it would finalize its revised agency-wide strategic plan in August 2024.

Without a process to establish outcomes and systematically track and assess performance measures and program performance, Department does not have information it needs to improve its housing programs' effectiveness and report meaningful outcomes to Legislature and Governor

Without developing a comprehensive performance measurement system the Department cannot systematically assess the performance of its programs or whether its programs are effectively addressing issues the Department has identified as negatively impacting the State, such as an increase in the number of unsheltered homeless individuals, service and resource disparities in urban versus rural areas, and a lack of affordable and suitable housing, especially in rural areas. For example, although the Department's strategic plan for the Balance of State Continuum of Care program includes an objective to reduce service disparities between counties, it lacks an outcome measure to assess whether it is achieving this objective. Potential outcomes related to this objective could include a short-term measure of the number of individuals moved off waiting lists for services or a long-term measure of the number of individuals who have obtained permanent housing after receiving services that were expanded in a specific area. Further, the Department may not identify or be aware of opportunities to further modify its programs to ensure improved outcomes for program participants. For example, according to HUD, without an intentional process in place to track progress, agencies may not remain accountable to goals, and the implementation of strategies can easily be neglected or abandoned.²⁹

Further, without having a comprehensive performance measurement system, including measuring and tracking its performance related to key outcomes, the Department has been reporting an output to the Legislature and Governor rather than reporting outcomes that could provide policymakers with more helpful information. Specifically, A.R.S. §35-728(D) requires the Department to annually report on the Department's federal Low Income Housing Tax Credit activities, including the approximate amount of money used in the housing industry as a result of the Department's awarding of federal tax credits.³⁰ Pursuant to this requirement, the Department has annually reported the amount of federal tax credits it awarded—an output measure—as the amount of

²⁹ HUD, n.d.

³⁰ A.R.S. §35-728(D) requires the Department to provide the report to the Governor, the President of the Arizona Senate, the Speaker of the Arizona House of Representatives, and the Auditor General no later than September 30 of each year.

money used in the housing industry.³¹ Conversely, reporting an outcome measure that provides information on changes that have resulted from the federal Low Income Housing Tax Credits the Department awarded, such as the total amount of investments in low-income housing made by tax credit recipients, could provide helpful information to the Legislature on whether federal Low Income Housing Tax Credits are achieving their desired short-term outcome in Arizona, and help illustrate whether they are likely to meet their intended purpose to incentivize developers to construct more affordable housing.³²

Recommendations

The Department should:

1. 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.
 - b. Tracking and review of performance measures and outcomes on an established time frame.
 - c. Time frame for updating goals.
2. 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.
3. 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.
 - b. Systematically tracking and assessing performance measures and outcomes for all Department-wide and program performance goals and targets.
 - 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.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement or implement in a different manner all of the recommendations.

³¹ According to OMB, outputs are the quantity of products or services delivered by a program. Office of Management and Budget (OMB). (2020). *Managing for results: The performance management playbook for federal awarding agencies*. Retrieved 3/19/2024 from <https://www.cfo.gov/wp-content/uploads/2021/Managing-for-Results-Performance-Management-Playbook-for-Federal-Awarding-Agencies.pdf>

³² According to OMB, outcomes are the desired results of a program. OMB, 2020.



QUESTIONS AND ANSWERS

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Question 1: What is permanent supportive housing (PSH)?

Permanent supportive housing (PSH) provides housing assistance and supportive services to promote independent living for homeless individuals and families. PSH falls within a general supportive housing model and, according to the Department, is generally provided in accordance with the federal Continuum of Care Program, which requires that PSH be provided to homeless individuals and families in which 1 adult or child has a disability.^{33,34,35} According to the Department, it supports 2 forms of PSH that are generally provided through the Balance of State Continuum of Care Program: rental assistance vouchers for individuals and/or households and block-leased housing where a Department grantee leases a housing complex or a number of units from a landlord and subleases these units to individuals and/or households that qualify for PSH. PSH recipients are also provided supportive services, such as case management, childcare, drug and alcohol abuse treatment and counseling, behavioral health services, nutritional services, life skills training, and assistance to gaining access to local, State, and federal benefits and services, intended to help recipients achieve self-sufficiency and stable housing.³⁶

³³ The general supportive housing model can be provided in various ways, including but not limited to providing rental vouchers to help individuals and families defray rental/lease costs, providing subsidies to property owners who agree to rent to qualified individuals and families, and providing housing and other services to individuals and families in a group home setting. According to the Department, the specific requirements that individuals must meet to obtain supportive housing, including PSH, depend on the program's requirements (see Question 4 for common PSH eligibility requirements).

³⁴ 24 CFR 578.3 and 578.37(a)(1)(i) require that an individual is both homeless and has a disability or a family is both homeless and 1 adult or child has a disability to receive PSH through the Continuum of Care Program.

³⁵ According to HUD, a disability is defined as having a physical, mental, or emotional impairment, a developmental disability, or human immunodeficiency virus (HIV) or acquired immunodeficiency syndrome (AIDS).

³⁶ According to 24 CFR 578.37(a)(1)(i), for PSH provided through the Continuum of Care Program, supportive services designed to meet program participants' needs must be made available to the program participants.

Question 2: What are the main sources of State and federal monies and tax credits the Department administers that can support PSH, and how can the monies and tax credits be used?

The Department reported that it can use various sources of monies, including State and federal funds, federal programs, and State and federal tax credits to support PSH.³⁷ Further, according to the Department, the source of the monies used depends on the purpose the monies are used for, such as to construct rental housing units for PSH participants, pay for rental housing for eligible participants, or offer supportive services. The main sources of monies the Department can use to support PSH recipients include:

- **State Low Income Housing Tax Credits and federal Low Income Housing Tax Credits**—The Department can allocate State and federal tax credits to developers to help them develop affordable rental housing that could include PSH units.
- **State Housing Trust Fund and National Housing Trust Fund**—The Department can award grant monies and loans to developers to construct or rehabilitate PSH block-leasing units. Additionally, consistent with A.R.S. §41-3955, the Department can award State Housing Trust Fund grant monies to pay for supportive services.
- **Federal Continuum of Care Program**—The Department can award federal grant monies to grantees such as nonprofit organizations or State or local governments to provide PSH rental assistance and/or supportive services to eligible participants.
- **Federal Housing Opportunities for Persons with AIDS Program**—The Department can award grant monies to grantees, such as nonprofit organizations, that provide PSH rental assistance and supportive services to low-income individuals living with HIV/AIDS.

Question 3: What are the Department's key responsibilities for programs and funds that can support PSH?

The Department has various responsibilities related to the programs and funds that can support PSH, including awarding and distributing monies and awarding tax credits to qualified grantees and/or for eligible projects. The Department can distribute monies and award tax credits for eligible projects that may include PSH through 2 of its programs, including:

- **Rental Housing Development Program**—The Department's Rental Housing Development Program awards grants and distributes monies from the State Housing Trust Fund and National Housing Trust Fund and awards State and federal tax credits to developers for acquisition, rehabilitation, and/or construction of qualified rental housing, that could include PSH units.³⁸ According to the Department, it provided monies and awarded tax credits for the development of 528 PSH units in fiscal year 2023.^{39,40}
- **Special Needs Housing Program**—The Department's Special Needs Housing Program awards grants and distributes federal Continuum of Care Program and Housing Opportunities for Persons with AIDS Program monies to grantees such as nonprofits to provide PSH. For example, the Department distributed \$388,447 Continuum of Care monies to a grantee in fiscal year 2023 for 2 projects to provide

³⁷ We did not identify requirements or restrictions on the amount or percentage of available monies that can be spent on PSH. Additionally, according to the Department, PSH is not a project type in its grants management system. As a result, the Department reported it does not systematically track PSH expenditures, including expenditures per individual receiving PSH, the amount of PSH expenditures needed to construct and/or maintain each PSH unit, how many individuals each source of monies provided PSH for, or how much of the available monies and/or tax credits were used on PSH compared to other allowable uses. Further, the Department reported that to obtain information on its PSH expenditures, it would need to manually compile the data by reviewing information in individual project files.

³⁸ According to the Department, the inclusion of PSH units is not a requirement for a project to qualify for State Housing Trust Fund and National Housing Trust Fund monies or awards of State and federal tax credits.

³⁹ A project may take multiple years to be rehabilitated or constructed and be placed in service for individuals to live in.

⁴⁰ According to the Department, the number of individuals in a unit varies so a unit does not correspond to a specific number of individuals.

PSH to residents in Mohave County. The Special Needs Housing Program also performs administrative functions for the Balance of State Continuum of Care, established to promote community-wide planning for addressing homelessness by providing shelter, housing assistance, and supportive services for individuals and families experiencing or at risk of homelessness.

The Department is also responsible for monitoring grantees to help ensure they use awarded monies for allowable purposes, including those that receive monies for PSH (for more information about the Department's grantee-monitoring process and issues we identified, see report Arizona Auditor General report 24-113). For example, pursuant to federal regulations, the Department is required to perform annual reviews of each grantee of Continuum of Care Program monies to ensure grantee compliance with grant and federal requirements, including checking to ensure whether the grantee is properly verifying participant eligibility, such as income verification, and reviewing participant files to ensure inspections of housing quality occurred.⁴¹

Additionally, the Department is responsible for annual reporting to the federal government related to various federal programs and funds. For example, the Department is responsible for reporting Continuum of Care Program information to HUD, including the number of individuals served across various demographics and the type of housing assistance they were provided, program participation length, exit destinations, and incomes (see Questions and Answers, Question 6, pages 18 through 19, for more information about exit destinations).

Question 4: What are the common eligibility requirements for PSH participants?

Each program and/or fund the Department administers that can be used to provide PSH has distinct eligibility requirements based on the purpose of the program or fund and target population for the monies. Examples of common PSH eligibility requirements include:

- **Housing status**—Individuals and/or families may be required to be homeless or at risk of homelessness to receive PSH. For example, to be eligible for PSH through the federal Continuum of Care Program, the individual and/or family must be homeless, as defined in federal regulation.⁴²
- **Income level**—Individuals and/or families may be required to have an annual income at or below a specified level to receive PSH. For example, to be eligible for PSH through the Housing Opportunities for Persons with AIDS Program, an individual and/or family must have an annual income at or below 80 percent of the area median income.
- **Special populations**—Individuals and/or a member of a family may be required to be a member of a special population to receive PSH. For example, to be eligible for PSH through the federal Continuum of Care Program, the individual and/or family must have or include at least 1 member who has a disability affecting their ability to remain housed. Additionally, to be eligible for PSH through the Housing Opportunities for Persons with AIDS Program, an individual must be medically diagnosed with HIV/AIDS.

Question 5: How many individuals participated in Balance of State Continuum of Care PSH in fiscal year 2023?

According to Department data, the Balance of State Continuum of Care provided PSH for 677 individuals in fiscal year 2023, including 484 adults, 41 of who were veterans, and 193 children (see Table 2, page 18, for additional information on participants' length of participation in PSH).^{43,44}

⁴¹ 24 CFR 578.23(c)(8).

⁴² 24 CFR 578.3.

⁴³ As discussed in the Introduction (see page 2), the Department is the administrative agency that oversees the Balance of State Continuum of Care.

⁴⁴ According to the Department, there may be additional individuals in PSH projects that the Department provides monies for not included in the Department-provided data. Specifically, the Department-provided data for fiscal year 2023 is from the Department's Homeless Information Management System, and the Department reported that not all grantees are required to input data into this system.

Table 2

Majority of the 677 PSH participants supported by the Balance of State Continuum of Care in fiscal year 2023 had participated in PSH for at least 1 year

(Unaudited)

Length of participation	0-90 days	91-365 days	366-1,095 days (1-3 years)	1,096-1,825 days (3-5 years)	More than 1,825 days (more than 5 years)
Number of individuals	56	115	211	105	190

Source: Auditor General staff review of Department-provided PSH participant data for fiscal year 2023.

Question 6: How many individuals exited Balance of State Continuum of Care PSH in fiscal year 2023?

When an individual leaves PSH provided through the federal Continuum of Care Program, HUD requires that their exit and their destination after leaving PSH is recorded.^{45,46} According to Department data, of the 677 PSH participants supported by the Balance of State Continuum of Care PSH in fiscal year 2023, 514 participants remained in PSH and 163 participants left PSH during the fiscal year. As shown in Table 3, page 19, the 163 individuals who exited Balance of State Continuum of Care PSH in fiscal year 2023 had various exit destinations including a return to homelessness, institutional settings, temporary housing settings, and permanent housing settings.^{47,48}

Question 7: What are the common allowable expenses associated with PSH?

Each program and/or fund the Department administers that can be used to provide PSH has distinct requirements for how monies can be used. Common examples of allowable expenses include:

- **Housing unit development expenses associated with the acquisition, rehabilitation, or new construction of housing units for PSH**—Housing unit development is an allowable expense for various programs and funds, such as the Continuum of Care Program, Housing Opportunities for Persons with AIDS Program, State Housing Trust Fund, and federal Low Income Housing Tax Credit program. Additionally, federal regulations require housing developments that receive federal tax credits to provide housing for low-income individuals for at least 15 years.⁴⁹

⁴⁵ When an individual exits, they leave PSH. An individual may have short-term stints where they are not located at their PSH unit, such as a short hospital stay, which would not be considered an exit.

⁴⁶ The Department's HMIS data does not include the reason why the individual exited, such as what actions resulted in an individual's exit destination of jail, prison, or juvenile detention. However, according to the Department, Department grantees may have additional information about why an individual left PSH that is not contained within the Department's HMIS system, such as in documentation they maintain regarding services provided to individuals.

⁴⁷ According to the Department, HUD classifies exits to permanent settings as positive exits from PSH and exits to non-permanent settings as negative exits from PSH.

⁴⁸ According to the Department, it may provide monies for additional individuals in PSH projects not included in the Department-provided data. Specifically, the Department-provided data for fiscal year 2023 is from the Department's Homeless Information Management System, and the Department reported that not all grantees are required to input data into this system.

⁴⁹ 26 U.S.C. 42(h)(6).

Table 3

163 of 677 PSH participants supported by the Balance of State Continuum of Care left PSH in fiscal year 2023 for various exit destinations, including permanent settings

(Unaudited)

Exit destination	Number of individuals
Homeless setting	
Place not meant for habitation such as a vehicle or outside location	9
Emergency shelter	2
Institutional setting¹	
Foster care or group home	1
Jail, prison, or juvenile detention facility	14
Long-term care facility or nursing home	3
Psychiatric hospital or other psychiatric facility	1
Substance abuse treatment facility or detox center	1
Temporary setting²	
Transitional housing for homeless individuals	5
Staying or living with family, temporary tenure	5
Staying or living with friends, temporary tenure	8
Permanent setting	
Staying or living with family, permanent tenure	32
Staying or living with friends, permanent tenure	8
Rental by individuals, no ongoing housing assistance	47
Rental by individuals, with ongoing housing assistance	18
Owned by individuals, no ongoing housing assistance	4
Other	
Deceased	5
Total exits from permanent supportive housing	163

¹ There were other institutional setting exit destinations that individuals could have but did not exit to in fiscal year 2023, including hospitals or other residential nonpsychiatric medical facilities.

² There were other temporary setting exit destinations that individuals could have but did not exit to in fiscal year 2023, including residential projects or halfway houses with no homeless requirement and a hotel or motel paid for without an assistance voucher.

³ There were other permanent setting exit destinations that individuals could have but did not exit to in fiscal year 2023, including housing owned by the individual with ongoing housing assistance.

Source: Auditor General staff review of Department-provided PSH participant data for fiscal year 2023.

- **Rental assistance monies to defray housing costs provided to eligible program participants through vouchers or housing subsidies**—Rental assistance is an allowable expense for various programs and funds, including the Continuum of Care Program, Housing Opportunities for Persons with AIDS Program, and State Housing Trust Fund.
- **Block-leased housing operating expenses associated with block-leasing projects such as rent for the unit, maintenance, security, utilities, furniture, and other associated housing unit costs**—Block-leased housing expenses are an allowable expense for various programs and funds, such as the Continuum of Care Program and Housing Opportunities for Persons with AIDS Program.
- **Supportive services expenses associated with determining the service needs of participants and providing services to participants**—Supportive services is an allowable expense for various programs and funds, such as the Continuum of Care Program, Housing Opportunities for Persons with AIDS Program, and State Housing Trust Fund.
- **Administrative expenses associated with the management, oversight, and fulfillment of HUD and other federally required assessments and reporting**—Administrative expenses—such as staff salaries and related costs, travel costs related to monitoring grantees, equipment, and outside legal, accounting, or auditing services—are an allowable expense for various programs and funds, such as the Continuum of Care Program, Housing Opportunities for Persons with AIDS Program, and State Housing Trust Fund. For example, according to A.R.S. §41-3955(H), the Legislature can appropriate up to 10 percent of State Housing Trust Fund monies to the Department for administrative expenses of providing services related to the fund. Additionally, according to federal regulations, the Department can use up to 3 percent of the Housing Opportunities for Persons with AIDS Program monies it receives for administrative costs, and Department grantees can use up to 7 percent of the monies they receive for administrative costs.⁵⁰ Further, according to federal regulations, the Department and its grantees can use up to 10 percent of Continuum of Care Program monies for administrative costs.⁵¹

⁵⁰ 42 U.S.C. 12905(g).

⁵¹ 24 CFR 578.59(a). The 10 percent limit for administrative expenses excludes monies set aside pursuant to federal regulation for planning activities, such as preparing and submitting grant applications for Continuum of Care Program monies, and unified funding agency costs, such as monitoring grantees and enforcing compliance with federal Continuum of Care Program requirements (see Introduction, page 2 for more information about the unified funding agency designation).



Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of the Department. The sunset factor analysis includes additional findings and recommendations not discussed earlier in the report.

Sunset factor 1: The key statutory objectives and purposes in establishing the Department.

The Department's key statutory responsibilities include:

- Establishing policies, procedures, and programs to address affordable housing issues in the State, including housing issues of low- and moderate-income families and special needs populations, housing affordability, and decaying housing stock.⁵²
- Providing financial, advisory, consultative, planning, training, and educational assistance to the State's political subdivisions and other entities for the development of safe, decent, and affordable housing.
- Maintaining and enforcing quality and safety standards for manufactured homes, mobile homes, and factory-built buildings.⁵³

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

We identified some areas where the Department could better meet its statutory objectives and purposes. Specifically, the Department:

- **Failed to develop and implement policies and procedures to prevent and detect fraud, theft, waste, and abuse, resulting in the loss of \$2 million from the State Housing Trust Fund**—In June 2023, the Department transferred by wire \$2 million in State Housing Trust Fund monies to fraudulent actors impersonating officers from a title company and nonprofit housing organization that the Department was working with to purchase property for affordable housing programs. The Department did not become aware of the fraud until December 2023 when it was notified that the nonprofit housing organization had not received the wired monies.

Additionally, although the Department took action by notifying several State and federal agencies upon learning of the fraud, including the Federal Bureau of Investigation (FBI), it failed to timely notify us, as required by the *State of Arizona Accounting Manual* (SAAM). Further, the Department took nearly 80 days to respond to requests for additional information about the event from the Arizona Department of Administration (ADOA). As of September 2024, the Department had worked with ADOA to process an insurance claim and received an insurance payment to cover the loss of these monies.

The SAAM also requires State agencies to develop and implement effective internal controls that prevent and detect fraud, theft, waste, and abuse. However, our review identified that the Department lacked policies and procedures related to these areas, contributing to the problems noted previously. Specifically,

⁵² According to A.R.S. §41-3953(G) the Department cannot directly own, construct, operate or rehabilitate any housing units, unless it is necessary to protect the Department's collateral or security interests arising out of any Department programs.

⁵³ Laws 2001, Ch. 22, §2, established the Department, and Laws 2016, Ch. 128, §§91 and 94, transferred the statutory responsibilities of the Office of Manufactured Housing from the Department of Fire, Building and Life Safety to the Department.

the Department had not developed and implemented policies and procedures for using secure methods to obtain and independently verify wire transfer banking information; requiring a review and approval from Department management when wire transfer bank information changes; and providing timely notification to all required agencies for possible cases of fraud, theft, waste, or abuse. As of July 2024, the Department was working with ADOA to develop policies and procedures to help reduce the risk of wire fraud in the future.

We are continuing to investigate this matter and will issue a future report on our findings, if necessary.

- **Has not implemented all recommendations from our 2011 audit of the Department of Fire, Building and Life Safety to ensure fees cover regulatory costs**—Statute requires the Board to establish a schedule of fees related to the Department's regulation of the manufactured home and factory-built buildings industry so that the Department's total annual fee revenue is between 95 and 105 percent of anticipated expenditures for these activities (see Introduction, page 3, for more information on the Department's regulatory responsibilities).⁵⁴ Our 2011 audit of the Department of Fire, Building and Life Safety—the predecessor agency responsible for these regulatory functions—recommended that it develop policies and procedures to ensure that the manufactured housing fees it proposes to the Board would cover the anticipated expenditures related to its regulatory responsibilities and align with fee-setting standards and guidelines, including tracking and allocating direct and indirect costs, identifying the actual costs of specific activities for which fees are charged, and developing a method to propose annual fees to the Board (see Arizona Auditor General report 11-13 *Arizona Department of Fire, Building and Life Safety*).⁵⁵

As of June 2024, although the Department had taken some steps to address the recommendations from our 2011 audit, it had yet to fully implement these recommendations. Specifically, during our audit, in March 2024, the Department developed some written policies and procedures formalizing its reported process for developing and proposing an annual fee schedule to the Board, which is responsible for establishing the fee schedule. For example, the Department's policies and procedures for developing proposed fees include a process for tracking total direct and indirect expenditures associated with its regulatory activities, such as its total expenditures for payroll and related benefits for all Manufactured Housing and Building Division staff. However, inconsistent with fee-setting standards and guidelines, the Department's policies and procedures for developing proposed fees 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.⁵⁶ As a result, the Department's fees may not be commensurate with the costs of its regulatory functions. For example, the Department did not track staff time spent processing permit and license applications and conducting inspections in order to allocate the costs of these activities to its permit, license, and inspection fees that it proposed to the Board for fiscal year 2024. Additionally, the Department allocated regulatory staff's travel costs to some fees that do not generally require staff travel, such as for processing license applications.

- **Has not complied with State Housing Trust Fund reporting requirements**—The Department is statutorily responsible for administering the State Housing Trust Fund, including for using and/or allocating State Housing Trust Fund monies for developing housing projects, providing housing opportunities for low- and moderate-income households, constructing and renovating housing facilities and housing assistance, and annually reporting to the Legislature on the status of the State Housing Trust Fund by September 1 of each year.⁵⁷ According to A.R.S. §41-3955, the Department's annual reporting to the Legislature must include:

⁵⁴ A.R.S. §41-4010(A)(4).

⁵⁵ As discussed in the Introduction, effective August 2016, Laws 2016, Ch. 128, §§91 and 94, the Board and its statutory responsibilities were transferred from the Department of Fire, Building and Life Safety to the Department.

⁵⁶ As of fiscal year 2024, the Department's fee schedule included 50 manufactured home and factory-built buildings fees, including fees for conducting inspections, and processing license, permit, and certification applications.

⁵⁷ A.R.S. §41-3955 establishes the State Housing Trust Fund and the Department's responsibilities related to the fund, including requirements for reporting to the Legislature.

- A summary of the facilities that received State Housing Trust Fund monies during the previous fiscal year.
- Each facility's cost and location.
- The number of individuals benefiting from each facility's operation, construction, or renovation.
- The number of seriously mentally ill individuals who benefited from housing assistance provided through State Housing Trust Fund monies.

However, the Department has not fully complied with these statutory reporting requirements. Specifically, for fiscal years 2021 through 2023, the Department's report submitted to the Legislature did not include a summary of facilities that received State Housing Trust Fund monies or facility-specific cost and location information, as required by statute. Instead, the Department's report listed only the entities that received State Housing Trust Fund monies and the total amount of monies they received in each fiscal year. For example, for fiscal year 2022, the Department reported that it, Gila County, the City of Casa Grande, Yavapai County, and a nonprofit entity that administers multiple homeless facilities in the Phoenix metropolitan area received State Housing Trust Fund monies and listed the total amount of monies each entity received; however, it did not report which of these entities' facilities received State Housing Trust Fund monies, each facility's cost and location, or the number of individuals benefiting from each facility's operation, construction, or renovation. Additionally, the Department did not report how many seriously mentally ill individuals benefited from housing assistance provided through State Housing Trust Fund monies, as required by statute. Absent the required information, including how many individuals benefited from those facilities, the Legislature and other stakeholders may lack important information they need when making decisions about State resources, such as whether to continue, increase, or decrease State General Fund monies appropriated to the State Housing Trust Fund.

- **Could improve its federal Low Income Housing Tax Credit statutory reporting by including outcomes, consistent with recommended practices**—As discussed in the Introduction (see pages 1 through 2), the Department is responsible for administering the federal Low Income Housing Tax Credit program in Arizona. A.R.S. §35-728(D) requires the Department to annually report on the Department's federal Low Income Housing Tax Credit activities, including the approximate amount of money used in the housing industry as a result of the Department's awarding of federal tax credits.⁵⁸ Pursuant to this requirement, the Department annually reports the amount of federal tax credits it awarded—an output measure—as the amount of money used in the housing industry (see textbox for definitions). Although not required by A.R.S. §35-728(D), according to recommended practices from the U.S. Office of Management and Budget, government agencies, such as the Department, should also use outcome measures when assessing program performance. Reporting an outcome measure related to the federal Low Income Housing Tax Credits awarded, such as the total amount of investments in low-income housing made by tax credit recipients, could provide helpful information on whether federal Low Income Housing Tax Credits are achieving their desired short-term outcome in Arizona and help illustrate whether they are likely to meet their intended purpose to incentivize developers to construct more affordable housing. This approach would be consistent with how the Department has reported on the performance of the State's tax credit program. Specifically, in the Department's calendar year 2023 report on the

Outcomes—The desired results of a program. Example program outcomes could include increased employment rates for a program's participants or eliminating wait lists for affordable housing.

Outputs—Quantity of products or services a program delivers. Example program outputs could include total monies awarded, number of inspections completed, or the number of people trained.

Source: OMB, 2020.

⁵⁸ A.R.S. §35-728(D) requires the Department to provide the report to the Governor, the President of the Arizona Senate, the Speaker of the Arizona House of Representatives, and the Auditor General no later than September 30 of each year.

State Low Income Housing Tax Credit program, the Department reported that State Low Income Housing Tax Credit recipients used the \$7.875 million in tax credits they received to leverage more than \$309 million in resources, such as grants and loans, to develop affordable housing in the State.⁵⁹

- **Did not adequately oversee grantees to ensure its programs are meeting their intended purpose to provide housing to individuals in need and to prevent misuse of public monies**—Our review of the Department's oversight for a sample of 12 grantee projects intended to provide special needs housing, emergency shelter, or rental housing development in calendar years 2021 through 2023 found that the Department failed to adequately oversee these 12 projects, including not conducting site inspections; not consistently ensuring payments to grantees were for supported and allowable expenses; not consistently receiving and reviewing grantee reports to monitor project progress; and not assessing each grantees' risk of noncompliance to determine its level of monitoring. A lack of adequate oversight could result in wasteful and inappropriate spending of public monies and risky or unhealthy environments for vulnerable individuals such as those with disabilities and experiencing homelessness. We recommended the Department develop and implement a written plan that outlines the steps, including associated timelines, that the Department will take to implement key practices for providing program oversight consistent with federal and State requirements and recommended practices (see Arizona Auditor General report 24-113 for additional information and recommendations).

Recommendations

The Department should:

4. 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.
5. Develop and implement periodic training for all relevant staff on the updated policies and procedures related to wire transfers.
6. 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.
7. Comply with the reporting requirements outlined in A.R.S. §41-3955.
8. 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.

Department response: As outlined in its [response](#), the Department agrees with all but 2 of the findings, and will implement all but 2 of the recommendations.

⁵⁹ A.R.S. §41-3954(I) requires the Department to annually submit a report to the President of the Arizona Senate and the Speaker of the Arizona House of Representatives on whether State Low Income Housing Tax Credits produced a significant number of additional affordable housing units in the State and the economic impact of the credits.

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.

Our review did not identify other governmental or private entities that duplicate the Department's key statutory objectives and purposes. For example, HUD is responsible for policy and programs related to housing needs, community development, and fair housing laws in the nation, whereas the Department is responsible for establishing policies, procedures, and programs to address affordable housing issues in the State and providing financial, advisory, planning, and educational assistance to the State's political subdivisions and other entities for the development of affordable housing. Additionally, the Department administers various HUD programs and responsibilities in the State, including HUD's Manufactured Home Standards complaint process, Section 8 Choice Voucher program, and Veterans Affairs Supportive Housing Program (see Introduction, pages 3 through 4, for more information). Further, as discussed in the Introduction and as seen in Appendix A (see pages a-1 through a-6), the Department generally does not provide direct services to the State's residents but instead administers grants, loans, and tax credits that provide monies to various local government and nonprofit entities that provide housing and supportive services to low- to moderate-income individuals and families and individuals with special needs in the State.

However, we identified 2 areas where the Department provides similar services to other State government agencies but has taken steps to work with these agencies to coordinate the provision of similar services. For example, the Department has worked with other State government agencies to coordinate the provision of:

- **Housing and supportive services for special needs populations, including individuals with disabilities**—The Department and the Arizona Health Care Cost Containment System (AHCCCS) are both statutorily responsible for administering State funds that include monies that can be used to pay for housing and supportive services for individuals with disabilities who are in need of housing assistance, such as a individuals with a serious mental illness (see Introduction, page 2, for more information the Department's provision of housing and services for individuals experiencing homelessness).⁶⁰ The Department and AHCCCS have developed some coordination practices that are in part intended to avoid duplication of services. For example, the Department and AHCCCS are members of the Governance Advisory Board (Advisory Board) for the Balance of State Continuum of Care program, which has responsibilities related to planning and coordinating the use of several sources of federal homeless assistance monies in the State's 13 nonmetro counties (see Introduction, page 5, for more information on the Advisory Board).⁶¹ During Advisory Board meetings, the Department and other Advisory Board members share information and coordinate to determine how available resources should be used, such as what services are needed, which agency(s) will provide the funding and services, and whether those services should be focused in a specific geographic area. For example, as part of the Advisory Board's responsibility to approve Balance of State Continuum of Care projects and the allocation of monies to these projects, the Department shared information during an Advisory Board meeting on its suspension of payments to 1 of its project grantees providing special needs housing due to significant compliance issues and recommended monies be reallocated to a different grantee that could take over the project. The Board discussed and approved the reallocation of these monies and responsibilities to a different Department project grantee that would take over the project so program participants would continue to receive housing assistance and services (see Arizona Auditor General report 24-113, Finding 1, pages 6 through 9, for more information on the Department's suspension of payments to the grantee).

⁶⁰ According to A.R.S. §41-3955, State Housing Trust Fund monies administered by the Department may be spent on constructing or renovating facilities and on housing assistance, including support services, for persons who have been determined to be seriously mentally ill and resistant to treatment. A.R.S. §41-3955.01 requires AHCCCS to administer the Seriously Mentally Ill Housing Trust Fund for housing projects and rental assistance for seriously mentally ill persons. A serious mental illness is a chronic and long-term mental health condition that impacts a person's ability to perform day-to-day activities or interactions.

⁶¹ According to 24 CFR 578.5(b), a Continuum of Care must establish a Board to act on behalf of the continuum that consists of relevant organizations serving homeless populations, including State and local government entities and nonprofit organizations. Federal regulation also requires that a Continuum of Care meet at least semiannually.

Additionally, both the Department and AHCCCS have participated in a workgroup with multiple State and local agencies to build a data-sharing system to integrate information from multiple agencies on individuals identified as experiencing homelessness and any housing and/or supportive services being provided to these individuals. The Department and AHCCCS reported that by integrating this information, they can better determine whether individuals are already receiving housing and/or supportive services and which entity is providing those services to help avoid duplication of services. The Department and AHCCCS have policies that require or encourage entities providing housing assistance and/or services to homeless individuals through their programs to use the shared data to coordinate services being provided to these individuals.

- **Emergency shelters and related services**—The Department and the Arizona Department of Economic Security (DES) both administer programs that provide monies to pay for emergency shelter and services to individuals experiencing homelessness, and the Department and DES have developed various methods to help coordinate these programs. For example, similar to AHCCCS, DES is a member of the Department's Governance Advisory Board and has participated in the workgroup to develop the data-sharing system mentioned above.

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

Our review of the Department's statutes and rules found that the Board of Manufactured Housing (Board) has not developed some rules required by statute.⁶² Specifically:

- A.R.S. §41-4032(C) requires the Board to adopt rules establishing procedures for handling complaints made by the purchaser of a new manufactured home concerning cosmetic, superficial, or minor matters, including rules for determining the date of installation of a new manufactured home.
- A.R.S. §41-4036(C) requires the Board to adopt rules establishing procedures for scheduling repair and replacement of cosmetic complaint items.
- A.R.S. §41-4030(R) requires the Board to adopt separate rules for manufactured homes and factory-built building dealer's trust and escrow accounts.⁶³ At a minimum, these rules must contain trust and escrow account requirements for recordkeeping, administration, service fees or charges, deposits, advances or payments out of trust and escrow accounts, closing or termination of sales transactions, and auditing or investigating of trust or escrow account complaints.⁶⁴

The Department reported that the Board had not adopted rules for these statutes because it determined that the information required to be established in rule is already outlined in HUD's standards and/or other State statutes. For example, complaint-handling processes for manufactured housing are established in HUD's Manufactured Home Standard, and the Department is responsible for administering HUD-established requirements for the complaint process pursuant to an agreement with HUD. Additionally, the Department reported that dealer trust and escrow account requirements are satisfied by other subsections of A.R.S. §41-4030. According to the Department, it plans to work with the Legislature to enact legislation during the 2025 legislative session to remove these 3 statutory requirements.

⁶² We identified and reviewed 13 statutes that require Department or Board rulemaking.

⁶³ According to A.R.S. §41-4001(12), a dealer means any person who sells, exchanges, buys, offers, or attempts to negotiate or acts as an agent for the sale or exchange of factory-built buildings, manufactured homes, or mobile homes, except as exempted in A.R.S. §41-4028.

⁶⁴ As of April 2024, the Board had adopted some rules required by A.R.S. §41-4030(R) but had not adopted rules for trust and escrow account service fees and charges, advances, or payments, or investigation of complaints.

Recommendation

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.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendation.

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.

The Department has provided public access to rulemakings, including soliciting public input when making rules. Specifically, our review of the Department's 3 most recent rulemakings finalized in October 2021, September 2020, and June 2018—all 3 related to the Board—found that the Department informed the public of its recent rulemakings and provided opportunities for public input. For these 3 rulemakings, the Department published notices of its proposed rulemakings in the Arizona Administrative Register and provided the contact information for Department staff who could receive public input about the proposed rulemakings. The Department also allowed the public to submit written comments on proposed rule changes for at least 30 calendar days after it published the first notice of proposed rulemaking.⁶⁵

Additionally, we reviewed the Board's compliance with open meeting law requirements for 1 Board meeting held in April 2024 and found that the Board complied with open meeting law requirements we reviewed.^{66,67} For example, the Board posted its meeting notice at least 24 hours in advance of the meeting time, followed its noticed agenda, and made meeting minutes available for public inspection 3 working days after the meeting.

Further, as discussed in the Introduction (see pages 5 through 9), Laws 2023, Ch. 133, §49, appropriated \$190 million by including \$150 million to the Department for the State Housing Trust Fund and \$40 million for the Homeless Shelter and Services Fund. Although not specifically required by Laws 2023, Ch. 133, §49, the Department reported that it hosted or participated in a total of 10 stakeholder meetings to obtain input on the proposed uses of the appropriated monies.^{68,69} Specifically, the Department held 2 meetings in August 2023 that were open to the public and announced these meetings through bulletins posted on its website and social media sites, and emailed to individuals subscribed to its mailing list.^{70,71} Additionally, between July and October 2023, the Department reported it held 8 meetings with stakeholders to receive feedback on the use of these monies.⁷² According to the Department, it used this stakeholder feedback to inform its allocation of State

⁶⁵ According to the Department's *Notice of Final Rulemaking* published in the Arizona Administrative Register, the Department received public input for the proposed rulemaking it finalized in September 2020. Specifically, during a public meeting, 2 members of the public asked the Department questions related to the use of insignia on structures. The Department reported that it responded to the questions during the public meeting but did not make changes to the proposed rulemaking.

⁶⁶ A.R.S. §§38-431 through 38-431.09.

⁶⁷ A.R.S. §41-4009 requires the Board to hold meetings at least annually, and as of June 2024, the Board had held 2 public meetings in calendar year 2024.

⁶⁸ Laws 2023, Ch. 133, §49, also required the Department to submit an expenditure plan report for the appropriated State Housing Trust Fund monies to the Joint Legislative Budget Committee by September 1, 2023. Because the Department's expenditure plan was due before this law became effective in October 2023, the Department's expenditure plan report it submitted to the Joint Legislative Budget Committee did not include information on monies awarded but outlined the Department's planned process for determining how these monies will be used, including conducting stakeholder meetings and soliciting input on its website.

⁶⁹ Laws 2023, Ch. 141, §3, established the Homeless Shelter and Services Fund and required the Department to submit an annual report describing all grants awarded each fiscal year, that is due to the Governor, Senate President, and Speaker of the House. The first annual report is due on December 31, 2024.

⁷⁰ The Department held 1 in-person meeting that it announced 5 weeks in advance and 1 virtual meeting that it announced 1 week in advance.

⁷¹ These meetings were not subject to open meeting law requirements.

⁷² The stakeholder meetings that the Department attended included meetings with legislators, nonprofit organizations, local government representatives such as County Supervisors, and private housing developers.

Housing Trust Fund and Homeless Shelter and Services Fund monies (see Appendix B, pages b-1 through b-14, for more information on the Department's use of State Housing Trust Fund and Homeless Shelter and Services Fund monies).

Finally, our review of the Department's compliance with the State's public records law found that the Department had developed policies and procedures to help it comply with public records law and recommended practices but did not always follow its policies and procedures. Specifically, the Department's policies and procedures require it to provide written notice to requestors when its response to a public records request will take more than 5 business days, consistent with recommended practices from the Arizona Ombudsman Citizens' Aide Office and the *Arizona Agency Handbook*.^{73,74} However, our review of a sample of 6 of 97 public records requests the Department received in calendar year 2023 found that the Department took between 6 and 52 business days to fulfill 5 of the requests, but it did not provide written notice regarding the delay or expected fulfillment time to any of the requestors.^{75,76} According to the Department, 4 of the public records requests were delayed because it needed to redact some information before responding, and 1 public records request was delayed due to competing Department priorities. Although the Department reported that it called these requestors to notify them of the delay, it did not document that it had done so or provide written notice to the requestors, as required by its policies and procedures. In response to our audit, the Department reminded staff in July 2024 of its policy requirement to provide written notice to requestors when a public records request will take more than 5 business days to fulfill.

Recommendation

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.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendation.

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

As the contract administrator for project-based federal Section 8 properties in the State, the Department is responsible for ensuring that property owners resolve complaints related to health and safety issues, such as fire or water damage (see Appendix A, page a-3 thorough a-4, for more information about the Section 8 programs). As part of this responsibility, HUD requires the Department to contact the property owner within 1 hour after receiving a complaint for life-threatening health and safety issues, and 2 business days for non-life-threatening health and safety issues. HUD also requires the Department to monitor the property owner's response to complaints and implementation of corrective actions to address the health and safety issue(s). Our review of 15 of 321 complaints the Department received from July 2020 through August 2023 found that the Department handled the 15 complaints in compliance with HUD requirements we reviewed.⁷⁷ Specifically, the Department contacted and/or responded to the property owners and reviewed information the property owners

⁷³ The Department's online portal provides requestors an automatic notice that the request will be processed in the next 3 to 5 business days. The Department's policies and procedures indicate that if a request is expected to be delayed more than 5 business days, the requestor will be notified in writing.

⁷⁴ Arizona Ombudsman-Citizens' Aide. (2023). *Arizona Public Records Law*. Retrieved 2/08/2024 from <https://www.azoca.gov/wp-content/uploads/Public-Records-Law-Booklet-2023.pdf>; Arizona Office of the Attorney General. (2018). *Arizona Agency Handbook*. Retrieved 2/08/2024 from <https://www.azag.gov/outreach/publications/agency-handbook>

⁷⁵ We randomly selected 5 of 94 completed public record requests and judgmentally selected 1 of 3 in-progress public records requests, as of February 2024. All the public records requests from which we selected our sample were received in calendar year 2023.

⁷⁶ The Department completed the in-progress public record request we reviewed in February 2024 during the audit.

⁷⁷ We reviewed a set of random samples composed of 3 of 104 management issues, 2 of 65 resident issues, and 5 of 20 life-threatening health and safety issues, as well as a systematic sample of 5 non-life-threatening health and safety issues (selected through a regular interval of every twenty-fifth observation of the 132 issues) the Department received between July 2020 to August 2023.

provided to determine that the complaints had been addressed.⁷⁸ For example, for those complaints involving life-threatening health and safety complaints related to fire damage, the Department requested information from the property owners on any families who had been displaced by a fire and a plan of action for relocation and communication with residents who were displaced.

In addition, the Department is responsible for ensuring that Department manufactured home licensees resolve consumer complaints regarding defects in manufactured homes, such as structural, electrical, or plumbing issues.^{79,80} Specifically, federal regulations require the Department to ensure that licensees are assigned responsibility to correct or repair defects in manufactured homes within 120 days from when a request for resolution is made.^{81,82} Our review of a random sample of 10 of 185 manufactured housing complaints the Department received between January 2020 and December 2023 found that the Department did not assign responsibility to licensees to correct or repair defects within 120 days for 2 of 10 complaints we reviewed, taking 172 and 175 days to assign licensees responsibility for these 2 complaints.^{83,84} These 2 complaints alleged various defects in manufactured homes, such as an improperly installed roof, gaps in walls, damaged siding, and creaky floors. According to the Department, some factors outside of its control can cause delays in assigning licensees responsibility for resolving complaints, and it does not count the days during these delays as part of the 120-day time frame. For example, the Department reported that because 24 CFR 3288.25(a) encourages consumers to resolve disputes directly with manufactured home licensees before seeking dispute resolution, the Department will not assign responsibility if the consumer and licensee are actively working together to resolve a dispute, and in such case, it would not count the days during this time as being applicable to its compliance with the 120-day time frame. However, this practice could potentially contribute to delays or inconsistencies in the complaint-handling process. For example, for the complaint that took the Department 172 days to assign responsibility, the Department reported that it “paused” its process for 61 days while the consumer and licensee worked to resolve the dispute. However, neither 24 CFR 3288.25(a) nor the Department’s policies and procedures specifically allow for or provide guidance on when or for how long its staff may “pause” the 120-day time frame, and the Department has not developed a formal process for tracking the reason(s) for or length of such pauses. Additionally, the Department’s policies and procedures do not include time frames for some of the individual steps in its manufactured housing complaint-handling process, also contributing to delays. For example, for the 1 complaint that took the Department 175 days to assign responsibility, the Department took 73 days to notify the licensees of the complaint, thereby delaying its resolution.

Recommendation

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.

⁷⁸ Although HUD does not establish required time frames for the resolution of Section 8 project-based rental housing assistance complaints, the Department took between 1 and 20 days to resolve the 15 complaints we reviewed.

⁷⁹ Licensees include manufactured home dealers, manufacturers, and installers. Complaints may involve multiple licensees.

⁸⁰ The Department is responsible for ensuring consumer manufactured home complaints are resolved as part of its cooperative agreement with HUD to administer its HUD-approved Arizona manufactured home dispute resolution program.

⁸¹ If the defect presents an unreasonable risk of injury, death, or significant loss or damage to valuable personal property, the Department has 60 days from the date the complaint is made to assign responsibility to correct or repair the defects. The Department’s policies require licensees to correct and repair the assigned defects within 30 days of notification, unless the Department grants the licensee an extension.

⁸² 24 CFR 3288.200 and 3288.205.

⁸³ The Department received these 2 complaints in April 2023 and June 2022, respectively.

⁸⁴ Our review of these 10 complaints found the Department followed complaint-handling policies and procedure requirements that we reviewed, such as notifying the licensee of the complaint and conducting an inspection, as needed.

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.

Department response:As outlined in its [response](#), the Department does not agree with the findings and will not implement the recommendations.

Sunset factor 7: The extent to which the level of regulation exercised by the Department is appropriate as compared to other states or best practices, or both.

The level of regulation the Department exercises related to manufactured homes and factory-built buildings in Arizona appears consistent with regulatory practices in most other states. For example, Arizona and 32 other states use HUD-established standards to regulate and enforce requirements for the installation, manufacturing, and rehabilitation of manufactured homes.⁸⁵ Specifically, HUD standards outline the planning requirements for manufactured homes, including the type of insulation used and the number and locations of exterior doors.

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

The State's conflict-of-interest requirements exist to remove or limit the possibility of personal influence from impacting a decision of a public agency employee or public officer. Specifically, statute requires employees of public agencies and public officers, including Board members, to avoid conflicts of interest that might influence or affect their official conduct.⁸⁶ These laws require employees/public officers to disclose substantial financial or decision-making interests in a public agency's official records, either through a signed document or the agency's official minutes. Statute further requires that employees/public officers who have disclosed conflicts refrain from participating in matters related to the disclosed interests. To help ensure compliance with these requirements, the ADOA State Personnel System employee handbook and conflict-of-interest disclosure form (disclosure form) require State employees to disclose if they have any business or decision-making interests, secondary employment, and relatives employed by the State at the time of initial hire and anytime there is a change. The ADOA disclosure form also requires State employees to attest that they do not have any of these potential conflicts, if applicable, also known as an "affirmative no." Finally, A.R.S. §38-509 requires public agencies to maintain a special file of all documents necessary to memorialize all disclosures of substantial interest and to make this file available for public inspection.

Additionally, in response to conflict-of-interest noncompliance and violations investigated in the course of our work, such as employees/public officers failing to disclose substantial interests and participating in matters related to these interests, we have recommended several practices and actions to various school districts, State agencies, and other public entities.⁸⁷ Our recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements by reminding employees/public officers of the importance of complying with the State's conflict-of-interest laws.⁸⁸ Specifically, conflict-of-interest recommended practices indicate that all public agency employees and public officers complete a disclosure form annually. Recommended practices also indicate that

⁸⁵ Other states rely on HUD and/or HUD-approved, private, third-party agencies to regulate and enforce requirements for the installation, manufacture, and rehabilitation of manufactured homes.

⁸⁶ A.R.S. §38-503; Arizona Office of the Attorney General, 2018.

⁸⁷ See, for example, Auditor General Reports 21-402 *Higley Unified School District—Criminal Indictment—Conspiracy, Procurement Fraud, Fraudulent Schemes, Misuse of Public Monies, False Return, and Conflict of Interest*, 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

⁸⁸ Recommended practices we reviewed included: Organization for Economic Cooperation and Development (OECD). (2021). *Recommendation of the Council on OECD Guidelines for managing conflict of interest in the public service*. Retrieved 4/29/2024 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Retrieved 4/29/2024 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Retrieved 4/29/2024 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>

the form include a field for the individual to provide an “affirmative no,” if applicable.⁸⁹ These recommended practices also indicate that agencies develop a formal remediation process and provide periodic training to ensure that identified conflicts are appropriately addressed and help ensure conflict-of-interest requirements are met.

Our review of a random sample of conflict-of-interest disclosure forms for 8 of 83 Department staff employed as of February 2024 found that all 8 Department staff completed disclosure forms at hire. However, 5 of 8 disclosure forms did not address all State requirements and/or recommended practices. Specifically, 3 of the forms did not include a question or field to disclose whether employees had any decision-making conflicts, as required by statute, and 2 forms did not include an “affirmative no” attestation, consistent with recommended practices. All 5 of these disclosure forms were completed prior to June 2020 when ADOA updated its disclosure form to align with recommended practices and statutory requirements.^{90,91}

In April 2024, the Department revised its conflict-of-interest policies and procedures to require all staff to submit a conflict-of-interest disclosure form annually, and as of May 2024, all Department staff had completed an updated annual conflict-of-interest disclosure. The Department also reported that it reviewed staff disclosures and determined no disclosures of substantial interest were made in calendar year 2024. Additionally, the Department created a special file in May 2024 to maintain all Department staff conflict-of-interest disclosure forms, including disclosures of substantial interest. Further, although the Department did not previously require Board of Manufactured Housing members to complete conflict-of-interest disclosure statements, in April 2024, the Department required its Board members to complete conflict-of-interest disclosure statements and updated its guidance for new Board member orientation to require completion of a conflict-of-interest disclosure form at appointment.

Recommendation

The Department should:

13. 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.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendation.

Sunset factor 9: The extent to which changes are necessary for the Department to more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities that are no longer necessary.

We did not identify any needed changes to the Department’s statutes. However, as previously discussed, the Department reported that 3 of the Board’s statutory responsibilities for developing rules on specific manufactured housing and building processes were not necessary and that it planned to work with the Legislature to enact legislation during the 2025 legislative session to remove these 3 statutory requirements (see Sunset Factor 4, pages 26 through 27, for more information).

⁸⁹ As previously discussed, the current ADOA disclosure form includes a field for the individual to provide an “affirmative no.”

⁹⁰ ADOA updated its disclosure form in June 2020 to include decision-making disclosures and to require an affirmative statement indicating whether or not a conflict exists.

⁹¹ These forms were completed between calendar years 1992 and 2019.

Sunset factor 10: The extent to which the termination of the Department would significantly affect the public health, safety, or welfare.

Terminating the Department could affect public health, safety, and welfare if its responsibilities were not transferred to another entity. The Department's responsibilities include administering various programs to support the development of affordable housing for low- to moderate-income individuals and families, assist individuals who are homeless or at risk of homelessness, and promote community revitalization (see Introduction, pages 1 through 4, for more information on the Department's responsibilities and Appendix A, pages a-1 through a-6, for more information about Department programs and funds). For example, according to the Department's fiscal year 2023 annual report, it supported the construction of 3,411 affordable multifamily housing units in fiscal year 2023 by awarding more than \$711 million in federal tax credits. The Department is also responsible for implementing and administering State and federal regulations for the safety of manufactured housing and factory-built buildings. Additionally, the Department serves as the public housing authority in Yavapai County and administers federal rental assistance monies in that county through the Section 8 Housing Choice Voucher program. According to the Department's fiscal year 2023 annual report, the Department committed more than \$1.2 million in Section 8 Housing Choice Voucher program rental assistance to 244 households in Yavapai County in fiscal year 2023.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 12 recommendations to the Department and 1 recommendation to the Board of Manufactured Housing

The Department should:

1. 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.
 - b. Tracking and review of performance measures and outcomes on an established time frame.
 - c. Time frame for updating goals (see Finding 1, pages 10 through 14, for more information).
2. 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 (see Finding 1, pages 10 through 14, for more information).
3. 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.
 - b. Systematically tracking and assessing performance measures and outcomes for all Department-wide and program performance goals and targets.
 - 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 (see Finding 1, pages 10 through 14, for more information).
4. 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 (see Sunset Factor 2, pages 21 through 24, for more information).
5. Develop and implement periodic training for all relevant staff on the updated policies and procedures related to wire transfers (see Sunset Factor 2, pages 21 through 24, for more information).

6. 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 (see Sunset Factor 2, pages 21 through 24, for more information).
7. Comply with the reporting requirements outlined in A.R.S. §41-3955 (see Sunset Factor 2, pages 21 through 24, for more information).
8. 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 (see Sunset Factor 2, pages 21 through 24, for more information).
9. 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 (see Sunset Factor 5, pages 27 through 28, for more information).
10. 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 (see Sunset Factor 6, pages 28 through 29, for more information).
11. 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 (see Sunset Factor 6, pages 28 through 29, for more information).
12. 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 and reviewing all forms to determine whether there are any substantial interest disclosures, and maintaining a special file of all substantial interest disclosures (see Sunset Factor 8, pages 30 through 31, for more information).

The Board should:

1. 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 (see Sunset Factor 4, pages 26 through 27, for more information).



Department-administered programs, funds, and tax credits

In fiscal year 2023 the Department committed federal and State monies and tax credits from 20 programs and funds totaling approximately \$1.26 billion to support activities related to homelessness, rental development, rental subsidies, community development, and housing rehabilitation, repair, and relocation.⁹² This appendix lists these federal and State programs and funds, including Department-reported information on the use of the monies for fiscal year 2023 (see Table 4, pages a-2 through a-5, for federal programs and funds, and Table 5, pages a-5 through a-6, for State programs and funds).

Federal programs, funds, and tax credits—HUD, the U.S. Department of the Treasury, the U.S. Internal Revenue Service, and the U.S. Department of Energy allocate monies and/or tax credits to the Department through various federal programs, funds, and grants.⁹³ In general, the Department then acts as a “pass-through” agency and distributes these monies and tax credits to other governmental and private entities, such as housing developers and nonprofit organizations, in the form of loans, grants, and tax credit awards to support housing and community development projects. For example, the Department reported committing approximately \$1.16 billion in federal monies and tax credits in fiscal year 2023, including approximately \$867 million in federal Low Income Housing Tax Credit Program tax credits allocated to the Department by the U.S. Internal Revenue Service, and approximately \$116 million in federal Homeowner Assistance Fund monies allocated to the Department by the U.S. Department of Treasury.⁹⁴ Table 4 (pages a-2 through a-5) provides a list of the Department’s reported commitments of monies and tax credits from federal programs, funds, and tax credits in fiscal year 2023.

⁹² According to the Department, it generally distributes these monies to governmental and private entities such as nonprofits to support the administration of housing and community development projects.

⁹³ Additionally, the Department administers a federal program from the U.S. Department of Health and Human Services through an interagency service agreement with DES.

⁹⁴ According to the Department, committed monies are monies for which the Department has issued an award letter and set aside for a project and/or activity. As previously discussed (see Introduction, page 1), the Department distributes committed monies to awardees on a reimbursement basis. For more information about the Department’s fiscal year 2023 expenditures for aid to other organizations, including grants and loans, see Introduction, Table 1, pages 6 through 9.

Table 4

Department committed approximately \$1.16 billion from Department-administered federal programs, funds, and tax credits for various purposes in fiscal year 2023

(Unaudited)

Program, fund, or tax credit name (source)	Main purpose	Department-reported fiscal year 2023 accomplishments	Department-reported fiscal year 2023 commitments
Community Development Block Grant (HUD)	To support community development projects, such as infrastructure and economic development projects. ¹	Rehabilitated 56 homes and impacted the lives of over 81,000 Arizonans through various projects, such as building a community center in Apache County and constructing sidewalk improvements in the Town of Thatcher and street improvements in the City of Nogales.	\$10,681,386
Continuum of Care (HUD)	To support efforts to end homelessness through rental assistance and other supportive services, such as permanent supportive housing. ²	Assisted with the development of transitional housing for 18 households and provided rental assistance to 390 households. ³	\$5,163,669
Federal Low-Income Housing Tax Credit (Internal Revenue Service)	To incentivize private investment in affordable rental housing projects, including the acquisition, rehabilitation, or new construction of affordable rental housing.	Construction, acquisition, and/or rehabilitation of 4,288 multifamily homes and 28 single-family homes.	\$866,672,400 ⁴
HOME American Rescue Plan Grant (HUD)	To support the construction and/or rehabilitation of affordable housing, provide rental assistance to low-income households, pay for support services, and purchase and develop homeless shelters. ⁵	Assisted with the development of 218 multifamily homes.	\$8,520,000
HOME Investment Partnership (HUD)	To support the construction, purchase, and/or rehabilitation of affordable housing and to provide rental assistance for low-income households.	Assisted with the construction of 788 multifamily homes and rehabilitation of 55 single family homes, including the repair or replacement of roofing, drywall, and plumbing.	\$13,527,155

Table 4 continued

Program, fund, or tax credit name (source)	Main purpose	Department-reported fiscal year 2023 accomplishments	Department-reported fiscal year 2023 commitments
Homeowner Assistance Fund (U.S. Department of the Treasury)	To prevent home foreclosures for homeowners facing financial hardship associated with the COVID-19 public health emergency through payments for delinquent mortgage, property tax, and homeowner association bills. ⁶	Provided foreclosure prevention assistance to 9,229 households.	\$115,953,079
Housing Opportunities for Persons with AIDS (HUD)	To assist individuals living with HIV/AIDS with their housing needs, such as rental assistance; short-term rent, mortgage, or utility payments to prevent homelessness; and housing counseling services.	Provided rental assistance and other services to 79 households.	\$548,760
Housing Stability Counseling (HUD)	To provide counseling to prevent housing instability, including eviction, foreclosure, and homelessness.	Provided foreclosure counseling to 256 households.	\$262,071
Low-Income Home Energy Assistance Program (U.S. Department of Health and Human Services) ⁷	To assist income-eligible families with reducing the cost of home energy bills, energy crises, and energy-related home repairs.	Provided weatherization improvements for 944 single family households.	\$10,422,380
National Housing Trust Fund (HUD)	To increase and preserve rental housing and homeownership for low-income families.	Assisted 849 households with the construction of multifamily rental housing units.	\$13,000,000
Recovery Housing (HUD)	To provide temporary housing for individuals recovering from a substance abuse disorder.	Assisted with the development of transitional housing for 12 households in Navajo County.	\$1,494,272
Section 8 Housing Choice Voucher (HUD)	To provide subsidized housing through rental assistance vouchers for low-income families, the elderly, and disabled individuals.	Provided rental assistance for 244 households in Yavapai County. ⁸	\$1,230,806

Table 4 continued

Program, fund, or tax credit name (source)	Main purpose	Department-reported fiscal year 2023 accomplishments	Department-reported fiscal year 2023 commitments
Section 8 Veterans Affairs Supportive Housing (HUD)	To provide housing assistance vouchers and supportive services for veterans affected by or at risk of homelessness.	Provided rental assistance for 84 households in Yavapai County. ⁹	\$500,365
Section 8 Project-Based Contract Administrator (HUD)	To provide rental assistance for low-income individuals and families by subsidizing rents in specific housing properties.	Provided rental assistance for 8,138 households.	\$71,025,436
State and Local Fiscal Recovery Fund (U.S. Department of the Treasury)	To support the response and recovery from the COVID-19 public health emergency through the investment of water, sewer, and broadband infrastructure and other uses. ^{10,11}	Supported the conversion of hotels into transitional housing for 126 individuals or families.	\$1,200,000
Weatherization Assistance Program (U.S. Department of Energy)	To decrease home energy costs for income-eligible households through weatherization improvements and upgrades, such as heating and central air equipment maintenance, installing low-flow shower heads, and adding insulation to a residence.	Assisted with weatherization improvements for 3,630 single-family households, including improvements such as shading sun-exposed windows, implementing air leak control measures, and installing low-flow showerheads for water efficiency.	\$39,933,516
Total Department-reported federal monies and/or tax credits committed			\$1,160,135,295

- ¹ The Community Development Block Grant may also be used for activities such as building or improving public facilities, housing rehabilitation, public services, and code enforcement.
- ² The federal Continuum of Care program allocated monies to the Department for the Balance of State Continuum of Care.
- ³ According to the Department, a household is an individual or group that resides in 1 housing unit.
- ⁴ According to the Department, the amount of tax credits reported is the total amount of tax credits the fiscal year 2023 awardees can claim over the 10-year period of their awards. See Introduction, pages 1 through 2, for more information on Low-income Housing Tax Credits.
- ⁵ Monies from the HOME American Rescue Plan Grant may also be used for homelessness-prevention and housing counseling services. The monies can only be used for purchasing and developing noncongregate shelters, such as a shelter that provides a private space for occupants that does not require a lease or occupancy agreement.
- ⁶ The Homeowner Assistance Fund is set to end by September 30, 2026. As of fiscal year 2023, the Department stopped receiving allocations of monies but can spend monies previously allocated until September 30, 2026. As of fiscal year 2023, the Department had expended \$178 million of \$196 million it was allocated.

Table 4 continued

- ⁷ The Department and the Arizona Department of Economic Security have an interagency service agreement for the Department to administer these funds on behalf of the Arizona Department of Economic Security.
- ⁸ As discussed in the Introduction (see pages 3 through 4), the Department is the Public Housing Authority for Yavapai County and therefore directly administers and provides services to participants of the Section 8 Housing Choice Voucher program.
- ⁹ As discussed in the Introduction (see pages 3 through 4), the Department is the Public Housing Authority for Yavapai County and therefore directly administers and provides services to participants of the Section 8 HUD-Veterans Affairs Supportive Housing program.
- ¹⁰ According to the U.S. Department of Treasury, monies from the State Local Fiscal Recovery Fund must be committed by December 31, 2024, and expended by December 31, 2026, except monies for surface transportation projects and Title I eligible categories. As of July 2024, the Department had yet to expend approximately \$7 million of State Local Fiscal Recovery Fund monies.
- ¹¹ State Local Fiscal Recovery Fund monies may also be used to support Community Development Block Grant activities, provide emergency relief from natural disasters or their negative economic impacts, and support transportation projects.

Source: Auditor General staff review of federal regulations, the Department’s fiscal year 2023 annual report, and Department-reported information.

State funds and tax credits—In fiscal year 2023, the Department committed approximately \$99 million in State monies and/or tax credits from 3 State funds and 1 tax credit program to support its affordable housing efforts in the State, including \$60 million from the State Housing Trust Fund. Table 5 (pages a-5 through a-6) provides a list of the Department’s reported commitments of monies and tax credits from State funds and tax credit programs in fiscal year 2023.

Table 5
Department committed approximately \$99 million from Department-administered State funds and tax credits for various purposes in fiscal year 2023
(Unaudited)

Fund or tax credit source	Main purpose	Department-reported fiscal year 2023 accomplishments	Department-reported fiscal year 2023 commitments
Homeless Shelter and Services Fund	To provide shelter and services to unsheltered persons experiencing homelessness. ¹	Assisted 147 households with the development or rehabilitation of shelters. For example, the Department awarded \$13,300,000 to the City of Phoenix for temporary shelter options for individuals experiencing homelessness, including leasing hotel rooms and creating safe outdoor camping space. See Appendix B, pages b-12 through b-14, for more information about the Department’s use of Homeless Shelter and Services Fund monies.	\$19,928,126

Table 5 continued

Fund or tax credit source	Main purpose	Department-reported fiscal year 2023 accomplishments	Department-reported fiscal year 2023 commitments
Mobile Home Relocation Fund	To provide assistance to homeowners and/or tenants for the cost of relocating their home from its existing mobile home park to a new location. ²	Assisted 33 individuals with relocation expenses in fiscal year 2023. ³	\$145,250
State Housing Trust Fund	To provide housing opportunities for low- and moderate-income households and housing affordability programs, such as the construction, renovation, or operation of affordable housing units.	Assisted 1,400 households with the construction, acquisition, and rehabilitation of multifamily homes. For example, according to the Department, it spent over \$1,300,000 to purchase 5 prefabricated accessory dwelling units that it provided to a nonprofit organization and the City of Phoenix to house unsheltered persons. See Appendix B, pages b-2 through b-11, for more information about the Department's use of State Housing Trust Fund monies.	\$60,000,000
State Low-Income Housing Tax Credit	To incentivize private investment in affordable rental housing projects, including the acquisition, rehabilitation, or new construction of affordable rental housing. ⁴	Assisted 120 households with the construction of multifamily homes. Additionally, the first affordable housing project using the State's tax credit began construction in March 2023.	\$18,750,000 ⁵
Total Department-reported State monies and/or tax credits committed			\$98,823,376

¹ Laws 2023, Ch. 141, §3, established the Homeless Shelter and Services Fund.

² Mobile Home Relocation Fund monies may be used if the mobile home park will be closed or redeveloped, if there is a qualifying rent increase, or if there are changes to the mobile home park's age restriction.

³ According to the Department's fiscal year 2023 annual report, \$12,500 in Mobile Home Relocation Fund monies can be provided to homeowners for mobile home relocation of a single section home and \$20,000 for a multisection home.

⁴ Laws 2021, Ch. 430, §5, established the State's tax credit. Additionally, according to Laws 2021, Ch. 430, §6, the State's tax credit is repealed from and after December 31, 2025.

⁵ According to the Department, the amount of tax credits reported is the total amount of tax credits the fiscal year 2023 awardees can claim over the 10-year period of their awards. Projects receiving State Low-Income Housing Tax Credits must also qualify for federal Low-Income Housing Tax Credits. See Introduction, pages 1 through 2, for more information on State and federal Low-income Housing Tax Credits.

Source: Auditor General staff review of Laws 2022, Ch. 313, §49; Laws 2023, Ch. 141 §3; Laws 2021, Ch. 430, §§5 and 6; A.R.S. §41-3954; the Department's fiscal year 2023 annual report; and Department-reported information.



Department's State Housing Trust Fund and Homeless Shelter and Services Fund revenues, expenditures, and commitments

This appendix outlines the Department's:

- Fiscal years 2022 through 2024 State Housing Trust Fund revenues and expenditures, as seen in Table 6, pages b-2 through b-3. As discussed in the Introduction, Laws 2022, Ch. 313, §49 and Laws 2023, Ch. 133, §49, appropriated \$60 million and \$150 million, respectively, to the Department for the State Housing Trust Fund. In fiscal years 2022 through 2024, the Department expended more than \$91 million in State Housing Trust Fund monies.
- Fiscal year 2024 Department funding agreements for State Housing Trust Fund monies, as seen in Table 7, pages b-3 through b-8.^{95,96} In fiscal year 2024, the Department entered into funding agreements and made conditional awards for State Housing Trust Fund monies totaling more than \$118 million to support activities related to rental housing development, temporary rental assistance, emergency shelter, homeowner emergency repairs, and affordable housing plans, as seen in Table 7, pages b-3 through b-8, and Table 8, pages b-8 through b-11.⁹⁷
- Fiscal year 2024 Department funding agreements for Homeless Shelter and Services Fund monies, as seen in Table 9, pages b-12 through b-13. As discussed in the Introduction, Laws 2023, Ch. 133, §49, appropriated \$40 million for the Homeless Shelter and Services Fund. In fiscal year 2024, the Department entered into funding agreements and made conditional awards for Homeless Shelter and Services Fund monies totaling nearly \$40 million for the purpose of supporting activities related to homelessness, as seen in Table 9, pages b-12 through b-13, and Table 10, page b-14.

⁹⁵ The Department develops funding agreements with recipients of grant monies (grantees) to outline the Department's and the grantee's responsibilities, applicable program requirements, a description of the services the recipient will provide, and the funding amount and method of payment, such as whether grant monies will be distributed to the grantee up front or on a reimbursement basis after the grantee has incurred expenses on behalf of the program.

⁹⁶ Monies may be included in both the expended and the funding agreement amounts if the Department entered a funding agreement and made a payment for a project in fiscal year 2024.

⁹⁷ A conditional award letter reserves monies for a project, but the monies are contingent on the completion of additional steps prior to the Department and the grantee entering into a funding agreement, such as completing an environmental review. An environmental review is the process of reviewing a project and its potential environmental impacts to ensure that the proposed project does not negatively impact the surrounding environment and that the property site itself will not have a negative impact in future residents' health.

Table 6
State Housing Trust Fund
Schedule of revenues, expenditures, and changes in fund balances
Fiscal years 2022 through 2024
(Unaudited)

	2022 (Actual)	2023 (Actual)	2024 (Estimate)
Revenues			
State General Fund appropriations ¹		\$60,000,000	\$150,000,000
Filing fees	100		
Unclaimed property sales ²	2,500,000	2,500,000	2,500,000
Interest income ³	173,275	1,969,531	5,674,271
Loan proceeds ⁴	9,629,010	4,344,227	2,855,575
Other revenues	957	290	610
Gross revenues	12,303,342	68,814,048	161,030,456
Transfers from AHCCCS ⁵		815,218	
Total revenues	12,303,342	69,629,266	161,030,456
Expenditures			
Payroll and related benefits ⁶	281,160	331,424	322,963
Professional and outside services	14,602	23,525	13,902
Travel	2,640	10,462	5,269
State Housing Trust Fund disbursements ⁷	17,498,463	21,446,764	47,303,471
Other operating	33,092	24,503	32,659
Noncapital equipment	55,272	66,866	48,393
Internal transfers ⁸		43,314	4,147,383
Total expenditures	17,885,229	21,946,858	51,874,040
Net change in fund balances	(5,581,887)	47,682,408	109,156,416
Fund balances, beginning of year	44,698,769	39,116,882	86,799,290
Fund balances, end of year	\$39,116,882	\$86,799,290	\$195,955,706

¹ Laws 2022, Ch. 313, §49, appropriated \$60 million in State General Fund monies to the Department for deposit in the State Housing Trust Fund. Additionally, Laws 2023, Ch. 133, §49, appropriated \$150 million in State General Fund monies to the Department for deposit in the State Housing Trust Fund.

Table 6 continued

- ² The State's Unclaimed Property Act, established in part by A.R.S. §§44-301 through 44-338, requires the deposit of certain unclaimed assets, including the proceeds from the sale of those assets, into a fund managed by the Arizona Department of Revenue. Pursuant to A.R.S. §44-313, \$2.5 million from this Arizona Department of Revenue fund was deposited into the State Housing Trust Fund in fiscal years 2022 through 2024.
- ³ According to the Department, most of the increase in revenues for interest income it received in fiscal years 2023 and 2024 was generated from the monies deposited into the interest-bearing State Housing Trust Fund.
- ⁴ The Department reported the loan proceeds are derived from various programs, such as loan proceeds from repayments of loans provided for rental housing development projects completed by local governments, nonprofits, or private housing developers.
- ⁵ In fiscal year 2023, the Department received \$815,218 from AHCCCS' Seriously Mentally Ill Housing Trust Fund to administer a housing project on its behalf.
- ⁶ Payroll and related benefits increased in fiscal year 2023 because the Department was appropriated additional monies to provide its employees a 10 percent salary increase as authorized by Laws 2022, Ch. 313, §124.
- ⁷ State Housing Trust Fund disbursements were for various purposes, such as to assist with rental housing development and provide special needs housing.
- ⁸ In fiscal years 2023 and 2024, the Department transferred monies from the State Housing Trust Fund to supplement monies for the federal Housing Stability Counseling Program. See Appendix A, page a-3, for more information on the Housing Stability Counseling Program.

Source: Auditor General staff analysis of the Arizona Financial Information System/AZ360 *Accounting Event Transaction File* and the State of Arizona *Annual Financial Report* for fiscal years 2022 and 2023, and Department-prepared estimates for fiscal year 2024.

Table 7
In fiscal year 2024, the Department entered funding agreements for more than \$35 million in State Housing Trust Fund monies

Project	Purpose	Amount committed
Homebuyer assistance—The Department entered into funding agreements to provide homebuyers with down payment and mortgage interest rate reduction assistance through its Arizona is Home program.		
Arizona Industrial Development Authority for the Arizona is Home program	From February 2024 through June 2025, provide down payment and mortgage interest rate reduction assistance to homebuyers in the State's 13 rural counties of Apache, Cochise, Coconino, Gila, Graham, Greenlee, La Paz, Mohave, Navajo, Pinal, Santa Cruz, Yavapai, and Yuma.	\$4,500,000
Chicanos Por La Causa for the Arizona is Home program	From April 2024 through September 2026, provide down payment, mortgage interest rate reduction, and closing cost assistance to first-time homebuyers in the State.	\$2,750,000
Trellis for the Arizona is Home program	From April 2024 through September 2026, provide down payment, mortgage interest rate reduction, and closing cost assistance to first-time homebuyers in the State.	\$2,750,000

Table 7 continued

Project	Purpose	Amount committed
Rental housing development —The Department entered into funding agreements to provide financial support to organizations for the development of rental housing for low-income individuals or families. These State Housing Trust Fund monies were awarded to developers that were also awarded federal Low-Income Housing Tax Credits. See Introduction, pages 1 through 2, for more information on the State Housing Trust Fund and federal Low-Income Housing Tax Credits.		
Roers Flagstaff Apartment Owner, LLC for Sierra on 66	From December 2023 through August 2026, construct 15 rental housing units for households earning no more than 60 percent of the area median income in the City of Flagstaff.	\$4,000,000
Villas on McQueen, LLC for Villas on McQueen	From June 2024 through April 2027, construct 14 rental housing units for households earning no more than 60 percent of the area median income in the City of Chandler.	\$4,000,000
CDS Two L.P. for Casa Del Sol II	From March 2024 through May 2025, construct 9 rental housing units for households earning no more than 60 percent of the area median income in the City of Sierra Vista.	\$2,000,000
Acacia Heights III, LLC for Acacia Heights III	From April 2024 through June 2026, construct 9 rental housing units for households earning no more than 60 percent of the area median income in the City of Phoenix.	\$2,000,000
Housing and services for homeless populations —The Department entered into funding agreements to provide housing and services for homeless populations in the State.		
AHCCCS Housing and Health Opportunities	In fiscal year 2024, expand housing services and interventions for AHCCCS members who are homeless or at risk of homelessness in the State.	\$5,492,600
Save the Family Foundation of Arizona Rapid Re-housing	From January 2024 through December 2025, provide rapid rehousing and supportive services, such as case management for 32 individuals and/or families who are homeless or fleeing or attempting to flee domestic violence in Maricopa County.	\$975,000
Central Arizona Shelter Services Rapid Re-housing	From January 2024 through December 2025, provide rapid rehousing and supportive services, such as case management for 40 individuals and/or families who are homeless or fleeing or attempting to flee domestic violence in Maricopa County.	\$959,932
UMOM New Day Centers, Inc. Rapid Re-housing	From January 2024 through December 2025, provide rapid rehousing and supportive services, such as case management for 40 individuals and/or families who are homeless or fleeing or attempting to flee domestic violence in Maricopa County.	\$866,906

Table 7 continued

Project	Purpose	Amount committed
Catholic Charities Community Services Esperanza Rapid Re-housing	From January 2024 through December 2025, provide rapid rehousing and supportive services, such as case management for 110 individuals and/or families who are homeless or fleeing or attempting to flee domestic violence in Coconino, Mohave, and Yavapai Counties.	\$680,000
Primavera Rapid Rehousing	From January 2024 through December 2025, provide rapid rehousing and supportive services, such as case management for 35 individuals and/or families who are homeless or fleeing or attempting to flee domestic violence in Pima County.	\$445,122
A New Leaf, Inc. Rapid Re-housing	From January 2024 through December 2025, provide rapid rehousing and supportive services, such as case management for 10 individuals and/or families who are homeless or fleeing or attempting to flee domestic violence in Pinal County.	\$350,000
Good Neighbor Alliance, Inc. Rapid Re-housing	From March 2024 through December 2025, provide rapid rehousing and supportive services, such as case management for 32 individuals and/or families who are homeless or fleeing or attempting to flee domestic violence in Cochise County.	\$180,000
Extreme weather shelter and response —The Department entered into funding agreements to expand existing emergency shelter response services during severe weather conditions, including excessive heat, extreme cold weather, and poor air quality due to smoke from regional fires for individuals and/or families experiencing homelessness.		
Flagstaff Shelter Services	From May 2024 through February 2025, during extreme cold weather, provide shelter for up to 600 homeless individuals and/or families, including providing hotel rooms for homeless families with children and operating an outdoor space with a temporary tent structure and industrial heaters for homeless individuals in the City of Flagstaff.	\$500,000
City of Tucson	From May 2024 through May 2025, during extreme heat or cold weather, provide additional overflow beds in congregate shelters and temporary housing in hotel rooms for up to 500 homeless individuals and/or families in the City of Tucson and in rural areas of Pima and Santa Cruz Counties.	\$500,000
City of Phoenix	From May 2024 through November 2024, during the summer months, provide 3 overnight cooling and navigation sites to offer safe indoor spaces for up to 700 homeless individuals and/or families in the City of Phoenix.	\$500,000

Table 7 continued

Project	Purpose	Amount committed
Verde Valley Homeless Coalition	From May 2024 through February 2025, during extreme weather conditions, provide additional shelter beds and services for at least 250 individuals and/or families in the City of Cottonwood	\$89,840
Homeowner emergency repair —The Department entered into funding agreements to provide assistance to homeowners for completing emergency repairs to their homes to address hazardous conditions that threaten their health and safety, such as completing lead-based paint abatement activities or making modifications to a home for handicap accessibility.		
Bullhead City	From April 2024 to December 2024, provide 10 homeowners with assistance to complete emergency repairs to homes in Bullhead City. To qualify for emergency repair assistance, a homeowner must have an income below the area median income and must meet 1 of the following criteria: elderly—over the age of 62, physically disabled, individual living with HIV/AIDS, family with children, and/or household earning no more than 30 percent of the area median income.	\$250,000
Cochise County	From April 2024 to October 2025, provide 10 homeowners with assistance for completing emergency repairs to homes in Cochise County. To qualify for emergency repair assistance, a homeowner must have an income below the area median income and be elderly—over the age of 62 or a family with children.	\$250,000
City of Holbrook	From June 2024 to December 2025, provide 11 homeowners with assistance to complete emergency repairs to homes in the City of Holbrook. To qualify for emergency repair assistance, a homeowner must have an income below the area median income and must meet 1 of the following criteria: elderly—over the age of 62, physically disabled, family with children, and/or household earning no more than 30 percent of the area median income.	\$250,000
Pinal County	From April 2024 to September 2025, provide 9 homeowners with assistance to complete emergency repairs to homes in Pinal County. To qualify for emergency repair assistance, a homeowner must have an income below the area median income and be physically disabled.	\$225,000

Table 7 continued

Project	Purpose	Amount committed
Community Home Repair Projects of Arizona	From May 2024 to May 2026, provide 25 homeowners with assistance to complete emergency repairs to homes in Pima County. To qualify for emergency repair assistance, a homeowner must have an income below the area median income and must meet 1 of the following criteria: elderly—over the age of 62, physically disabled, and/or family with children.	\$220,000
Local jurisdiction affordable housing plan —The Department entered into funding agreements to assist local jurisdictions to complete a housing needs assessment and develop affordable housing plans.		
Cochise County Local Jurisdiction Affordable Housing Plan	From June 2024 through June 2026, develop a local jurisdiction affordable housing plan for Cochise County by procuring a planning consultant to conduct a comprehensive housing needs assessment and using the assessment results to develop a plan that identifies initiatives to increase affordable housing in the county. Additionally, work with the Cochise County Board of Supervisors to obtain its commitment to implement the plan. By June 2025, submit the finalized affordable housing plan to the Department.	\$194,450
City of Bisbee Local Jurisdiction Affordable Housing Plan	From June 2024 through June 2026, develop a local jurisdiction affordable housing plan for the City of Bisbee by procuring a planning consultant to conduct a comprehensive housing needs assessment and using the assessment results to develop a plan that identifies initiatives to increase affordable housing in the city, including identifying and compiling a list of vacant and abandoned homes that could be rehabilitated for affordable housing. By September 2025, submit the finalized affordable housing plan to the Department.	\$125,000
City of Casa Grande Local Jurisdiction Affordable Housing Plan	From June 2024 through June 2026, develop a local jurisdiction affordable housing plan for the City of Casa Grande by procuring a planning consultant to conduct a comprehensive housing needs assessment and using the assessment results to develop a plan that identifies initiatives to increase affordable housing in the city. By February 2025, submit the finalized affordable housing plan to the Department.	\$107,000

Table 7 continued

Project	Purpose	Amount committed
City of Show Low Local Jurisdiction Affordable Housing Plan	From June 2024 through June 2026, develop a local jurisdiction affordable housing plan for the City of Show Low by procuring a planning consultant to conduct a comprehensive housing needs assessment and using the assessment results to develop a plan that identifies initiatives to increase affordable housing in the city. By September 2025, submit the finalized affordable housing plan to the Department.	\$100,000
City of Yuma Local Jurisdiction Affordable Housing Plan	From June 2024 through June 2026, develop a local jurisdiction affordable housing plan for the City of Yuma by procuring a planning consultant to conduct a comprehensive housing needs assessment and using the assessment results to develop a plan that identifies initiatives to increase affordable housing in the city. By June 2025, submit the finalized affordable housing plan to the Department.	\$92,000
Total		\$35,352,850

Source: Auditor General staff review of Department funding agreements.

Table 8

In fiscal year 2024, the Department made conditional awards for more than \$82.8 million in State Housing Trust Fund monies

Project	Purpose	Amount conditionally awarded
Rental housing development —The Department provided conditional award letters for the development of rental housing for low-income individuals and/or families.		
Phoenix North 17th Avenue LP for Emory Heights	Construct low-income housing in the City of Phoenix.	\$5,000,000
FSL Village on Humphreys Flagstaff 2019, LP for San Francisco Square Apartments	Construct low-income housing in the City of Flagstaff.	\$5,000,000
Richman Glendale Senior, LLC for Glendale Apartments	Construct low-income housing in the City of Phoenix.	\$5,000,000

Table 8 continued

Project	Purpose	Amount conditionally awarded
The Villas on Shelby, LLC for The Villas on Shelby	Construct low-income housing in the City of Sedona.	\$5,000,000
Surprise Leased Housing Associates II, LLLP for Orchard Springs	Construct low-income housing in the City of Surprise.	\$4,000,000
Thrive Tucson House, LLC for Tucson House	Acquire and rehabilitate low-income housing in the City of Tucson.	\$4,000,000
Sidney P Osborn Two, LLC	Construct low-income housing in the City of Phoenix.	\$2,000,000
Spire Real Estate Holdings, LLC for Rincon Manor	Construct low-income housing in the City of Tucson.	\$2,000,000
Sycamore Vista II Limited Partnership for Sycamore Vista—Phase II	Construct low-income housing in the Town of Camp Verde.	\$2,000,000
Sycamore Vista Limited Partnership for Sycamore Vista—Phase I	Construct low-income housing in the Town of Camp Verde.	\$1,500,000
Newport SW GP LLC for Belvedere Terrace	Construct low-income housing in the City of Tucson.	\$1,050,000
25th & Bell LIHTC, LLC for 25th at Bell Apartments	Construct low-income housing in the City of Phoenix.	\$1,000,000
GEM Heritage LLC for Heritage Senior Apartments	Construct low-income housing in the City of Surprise.	\$1,000,000
Reserve at Thunderbird II, LP for Reserve at Thunderbird Phase II	Construct low-income housing in the City of Phoenix.	\$1,000,000
CPLC South Liberty LIHTC, LLC for Casa Del Pueblo Senior Apartments	Construct low-income housing in the City of Tucson.	\$998,627
Garfield Veterans Housing III LLC for Garfield III	Construct low-income housing in the City of Phoenix.	\$907,842
CPLC Rosed Road LIHTC for Inspiration Housing	Construct, acquire, and rehabilitate low-income housing in the City of Miami.	\$500,000

Table 8 continued

Project	Purpose	Amount conditionally awarded
Sidney P. Osborn One, LLC for Sidney P Osborn One	Construct low-income housing in the City of Phoenix.	\$450,000
Homelessness prevention —The Department provided conditional award letters for transitional housing, rapid rehousing, and housing assistance for various populations, including individuals or families who are homeless, at-risk of homelessness, or fleeing domestic violence.		
Native American Connections, Inc. for Flats at El Mirage	Construct or acquire and convert existing facility for the development of transitional housing.	\$6,250,000
Steel + Spark, LLC for Senior Bridge	Construct or acquire and convert existing facility for the development of transitional housing.	\$6,250,000
COPE Community Services, Inc. for Sequoia Transitional Program	Construct or acquire and convert existing facility for the development of transitional housing.	\$6,250,000
Flagstaff Shelter Services for The Crown	Construct or acquire and convert existing facility for the development of transitional housing. As shown in Table 10, the Department also provided a conditional award of 1.5 million in Homeless Shelter and Services Fund monies for this project.	\$3,658,713
Solari	Provide housing assistance to help individuals and/or families at risk of homelessness remain in housing.	\$2,200,000
Steel + Spark, LLC for Phase 2 Senior Bridge	Using factory-built buildings or manufactured homes, construct housing for individuals experiencing homelessness in the City of Phoenix.	\$2,100,000
HOHP Pinal County Veterans Transition Center	Construct or acquire and rehabilitate existing facilities for the development of transitional housing.	\$1,771,275
Pima County	Provide rapid rehousing for individuals and/or families who are homeless or fleeing domestic violence.	\$1,000,000
Veterans Community Project	Construct 9 tiny homes for individuals experiencing homelessness in the City of Glendale.	\$900,000
Maricopa County Human Services	Provide housing assistance to help individuals and/or families at risk of homelessness remain in housing.	\$892,248
Coconino County HHS and Catholic Charities	Provide housing assistance to help individuals and/or families at risk of homelessness remain in housing.	\$440,000

Table 8 continued

Project	Purpose	Amount conditionally awarded
Flagstaff Shelter Services	Provide housing assistance to help individuals and/or families at risk of homelessness remain in housing.	\$411,125
Primavera Foundation	Provide housing assistance to help individuals and/or families at risk of homelessness remain in housing.	\$383,240
City of Chandler	Provide housing assistance to help individuals and/or families at risk of homelessness remain in housing.	\$343,387
Arizona Pet Project	Provide housing assistance to help individuals and/or families at risk of homelessness remain in housing.	\$330,000
Sitgreaves Community Development	Provide rapid rehousing for individuals and/or families who are homeless or fleeing domestic violence.	\$240,000
Local jurisdiction affordable housing plan —The Department provided conditional awards for the development of local jurisdiction affordable housing plans.		
City of Prescott	Develop and implement an affordable housing plan.	\$200,000
Pinal County	Develop and implement an affordable housing plan.	\$200,000
Town of Clarkdale	Develop and implement an affordable housing plan.	\$200,000
Town of Prescott Valley	Develop and implement an affordable housing plan.	\$200,000
First-time homebuyer housing development —The Department provided 2 conditional award letters for the construction or rehabilitation of homes for low- to moderate-income, first-time homebuyers.		
Habitat for Humanity Northern Arizona	Construct or acquire and rehabilitate housing for low- to moderate-income, first-time homebuyers.	\$2,160,000
Habitat for Humanity Tucson	Construct or acquire and rehabilitate housing for low- to moderate-income, first-time homebuyers.	\$2,100,000
Habitat for Humanity Central Arizona	Construct or acquire and rehabilitate housing for low- to moderate-income, first-time homebuyers.	\$2,000,000
Total		\$82,886,457

Source: Auditor General staff review of Department conditional award letters.

Table 9

In fiscal year 2024, the Department entered funding agreements for more than \$34.3 million in Homeless Shelter and Service Fund monies

Project	Purpose	Amount committed
Emergency shelter —The Department entered into funding agreements to provide emergency shelter and services for homeless individuals and/or families.		
City of Tucson Housing First Program	From January 2024 through June 2026, conduct street outreach and provide emergency shelter, supportive services, and housing navigation services for at least 675 homeless individuals and/or families.	\$4,000,000
Human Services Campus Respiro Shelter	From January 2024 through June 2026, provide emergency shelter for up to 450 homeless individuals annually in the City of Phoenix.	\$4,000,000
Old Pueblo Community Services Casa del Pueblo	From January 2024 through June 2026, increase shelter capacity by renting and making necessary repairs to a 100-bed facility in the City of Tucson. Provide shelter and services for up to 100 homeless individuals and/or families in the first year and 130 individuals and/or families each year after.	\$4,000,000
St. Vincent de Paul Ozanam Interim Operations	From April 2024 through June 2026, increase temporary housing capacity from 60 to 231 beds in the City of Phoenix. Provide shelter and services for up to 490 homeless individuals annually.	\$4,000,000
Pima County Emergency Housing	From January 2024 through June 2026, provide noncongregate shelter for 500 homeless individuals and/or families and temporary shelter in hotel rooms for 25 homeless individuals and/or families, and assist 50 homeless households exiting shelter to housing with move-in assistance and case management services annually in the City of Tucson.	\$3,513,944
Old Pueblo Community Services Casa Amparo	From January 2024 through June 2026, increase shelter capacity by purchasing and making necessary repairs to an 8-unit apartment complex in the City of Tucson. Provide shelter and services for up to 30 homeless individuals and/or families in the first year and 90 individuals and/or families each year after.	\$3,140,007
Open Hearts Family Wellness	From January 2024 through June 2026, provide transitional housing by purchasing a 12-unit apartment complex in the City of Phoenix. Provide transitional housing and support services for up to 20 individuals and/or families who are homeless or fleeing or attempting to flee domestic violence.	\$3,015,000

Table 9 continued

Project	Purpose	Amount committed
Catholic Charities Community Services	From January 2024 through June 2026, conduct outreach and provide emergency shelter and services for 30 homeless families and 200 homeless individuals in Coconino, Mohave, and Yavapai Counties.	\$2,854,636
Phoenix Dream Center	From January 2024 through June 2026, expand shelter and service capacity by increasing the number of crisis response staff, building an on-site childcare facility to support homeless families, purchase passenger vans for providing transportation services, and make facility modifications to improve accessibility and security for shelter residents. Annually, provide at least 400 homeless individuals and/or families with emergency shelter and addiction services.	\$2,184,522
One-n-Ten Promise of a New Day Program	From January 2024 through June 2026, provide emergency shelter and supportive services, including housing identification and move-in assistance for at least 75 LGBTQ+ and allied youth, ages 18-24, who are homeless or fleeing domestic violence in Maricopa County.	\$1,943,767
Sister Jose Women's Center	From January 2024 through June 2026, provide shelter and supportive services for at least 80 homeless women annually in Pima County.	\$500,000
Justa Center, Inc.	From June 2024 through June 2026, provide transitional housing and supportive services to a minimum of 80 homeless individuals aged 62 and above in Maricopa County.	\$500,000
Maggie's Place Empowering Mothers Program	From January 2024 through June 2026, provide emergency shelter and support services for up to 150 homeless pregnant and/or parenting women in Maricopa County.	\$330,000
Sister Jose Women's Center Shelter Expansion	From January 2024 through June 2026, increase shelter capacity by converting a storage space to an additional shelter space and adding 15 beds, 2 restrooms, and 3 showers.	\$224,920
Gila Valley Samaritan Home, Inc.	From January 2024 through June 2026, provide emergency shelter in hotel rooms and supportive services for at least 80 homeless individuals and/or families in Graham and Greenlee Counties	\$113,009
Total		\$34,319,805

Source: Auditor General staff review of Department funding agreements.

Table 10

In fiscal year 2024, the Department made conditional awards for nearly \$5.5 million in Homeless Shelter and Services Fund monies

Project	Purpose	Amount conditionally awarded
Emergency shelter —The Department provided conditional award letters to provide emergency shelter and services for individuals and/or families who are homeless.		
City of Phoenix for Phoenix Sprung Shelter	Provide shelter and navigation and employment services for 280 homeless individuals in the City of Phoenix.	\$3,120,035
Flagstaff Shelter Services for The Crown	Construct or acquire and convert existing facility for the development of transitional housing. As shown in Table 8, the Department also provided a conditional award of \$3,658,713 in State Housing Trust Fund monies for this project.	\$1,500,000
City of Sedona for Safe Place to Park Program	Provide the Safe Place to Park Program for homeless individuals and/or families.	\$875,638
Total		\$5,495,673

Source: Auditor General staff review of Department conditional award letters.



Scope and methodology

The Arizona Auditor General has conducted this performance audit and sunset review of the Department pursuant to a November 21, 2022, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to address the audit's objectives. These methods included reviewing applicable State statutes and federal regulations; the Department's website, policies, procedures, guidance, and various reports; and interviewing Department staff. In addition, we used the following specific methods to meet the audit objectives:

- To assess whether the Department developed a comprehensive performance measurement system consistent with recommended practices, we reviewed comprehensive performance measurement system recommended practices.⁹⁸ We also reviewed housing-specific recommended practices from HUD and the National Alliance to End Homelessness.⁹⁹ Further, we reviewed Department Rental Housing Development Program goals and reporting. Additionally, we reviewed the Balance of State Continuum of Care strategic planning process and related documents. We also reviewed the Department's fiscal year 2023 strategic plan and related documents.
- To assess whether the Department had developed and implemented effective internal controls for wire transfers that help prevent and detect fraud, theft, waste, and abuse, we reviewed the Department's policies and procedures and the SAAM. Additionally, we reviewed documentation provided by the Department and ADOA.
- To assess Department's manufactured housing fee-setting process, we reviewed our 2011 performance audit and sunset review of the Department of Fire, Building and Life Safety; Department fee-setting policies and procedures; and Department manufactured housing fee-setting documentation.¹⁰⁰

⁹⁸ Recommended practices we reviewed included Government Finance Officers Association (GFOA). (2018). *Best practices: Performance measures*. Retrieved 3/25/2024 from <https://www.gfoa.org/materials/performance-measures>; Office of Management and Budget (OMB). (2018). *Performance measurement and evaluation*. Retrieved 1/23/2024 from <https://www.evaluation.gov/assets/resources/Performance-Measurement-and-Evaluation.pdf>; Office of Management and Budget (OMB). (2020). *Managing for results: The performance management playbook for federal awarding agencies*. Retrieved 3/19/2024 from <https://www.cfo.gov/wp-content/uploads/2021/Managing-for-Results-Performance-Management-Playbook-for-Federal-Awarding-Agencies.pdf>; Pew-MacArthur Results First Initiative. (2014). *Evidence-Based policymaking: A guide for effective government*. Retrieved 3/25/2024 from <https://www.pewtrusts.org/-/media/assets/2014/11/evidencebasedpolicymakingaguideforeffectivegovernment.pdf>; Pew-MacArthur Results First Initiative. (2018). *The role of outcome monitoring in evidence-based policymaking*. Retrieved 1/23/2024 from <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2018/08/the-role-of-outcome-monitoring-in-evidence-based-policymaking>; United States Government Accountability Office (GAO). (2023). *Evidence-Based policymaking practices to help manage and assess the results of federal efforts*. Retrieved 3/25/2024 from <https://www.gao.gov/assets/830/827710.pdf>; Urban Institute. (n.d.). *Quantitative data analysis*. Retrieved 1/23/2024 from <https://www.urban.org/research/data-methods/data-analysis/quantitative-data-analysis/performance-measurement-and-management>; NSAA, 2004.

⁹⁹ U.S. Department of Housing and Urban Development (HUD). (n.d.). *Lessons from the ground: Best practices in fair housing planning: Developing specific and measurable goals*. Retrieved 4/3/2024 from <https://www.hudexchange.info/programs/fair-housing/best-practices-in-fair-housing-planning/setting-goals-and-tracking-progress/developing-specific-and-measurable-goals/>; National Alliance to End Homelessness (NAEH). (2016). *Rapid re-housing: Performance evaluation and improvement toolkit*. Retrieved 3/26/2024 from <http://endhomelessness.org/wp-content/uploads/2016/06/rrh-evaluation-and-improvement-toolkit.pdf>

¹⁰⁰ See Arizona Auditor General report 11-13 *Arizona Department of Fire, Building and Life Safety*.

- To assess the Department's compliance with State Housing Trust Fund reporting requirements, we reviewed statute and Department State Housing Trust Fund reports for fiscal years 2021 through 2023.
- To assess the Department's compliance with federal Low-Income Housing Tax Credit statutory reporting requirements, we reviewed statute, Department federal Low-Income Housing Tax Credit reports for fiscal years 2021 through 2023, Department State Low-Income Housing Tax Credit report for fiscal year 2023, and recommended practices from the Office of Management and Budget.¹⁰¹
- To assess the Department's compliance with the State's open meeting law requirements, we observed 1 public meeting held in April 2024 and reviewed this meeting's notice, agenda, and minutes.
- To assess the Department's compliance with public records law and its process for handling public records requests, we reviewed statute, Department public records requests policies and procedures, and recommended practices from the Arizona Ombudsman's Citizens' Aide Office and the *Arizona Agency Handbook*.¹⁰² Further, we randomly selected 5 of 94 completed public records requests and judgmentally selected 1 of 3 in-progress public records requests, as of February 2024. All the public records requests from which we selected our sample were received in calendar year 2023.
- To assess the Department's complaint-handling processes, we reviewed HUD Section 8 project-based rental housing assistance requirements and 15 of 321 Section 8 project-based rental housing assistance complaints the Department received from July 2020 through August 2023.¹⁰³ Additionally, we reviewed federal regulation and a random sample of 10 of 185 manufactured housing complaints the Department received between January 2020 and December 2023.
- To assess the Department's compliance with State conflict-of-interest requirements and alignment with recommended practices, we reviewed statute and State requirements, recommended practices, the Department's conflict-of-interest policy, the Department's special disclosure file, and the Department's conflict-of-interest disclosure form.^{104,105,106} We also reviewed a random sample of 8 of 83 conflict-of-interest disclosure forms completed by Department staff employed as of February 2024. Additionally, we reviewed a judgmental sample of 4 conflict-of-interest disclosure forms for Department staff in leadership roles and/or having decision-making authority. Further, we reviewed conflict-of-interest disclosure forms for all 8 Board members as of April 2024.
- To obtain additional information for the Sunset Factors, we identified the 13 Department and Board statutes that require rules and then reviewed the Department's corresponding rules; interviewed staff from the

¹⁰¹ OMB, 2020.

¹⁰² Arizona Ombudsman-Citizens' Aide. (2023). *Arizona Public Records Law*. Retrieved 2/12/2024 from <https://www.azoca.gov/wp-content/uploads/Public-Records-Law-Booklet-2023.pdf>; Arizona Office of the Attorney General. (2018). *Arizona Agency Handbook*. Retrieved 2/12/2024 from <https://www.azag.gov/outreach/publications/agency-handbook>

¹⁰³ We reviewed a random sample of 3 of 104 management issues, 2 of 65 resident issues, and 5 of 20 life-threatening health and safety issues; and a systematic sample selected through a regular interval of 5 of 132 non-life-threatening health and safety issues the Department received between July 2020 to August 2023.

¹⁰⁴ Arizona Office of the Attorney General, 2018.

¹⁰⁵ Recommended practices we reviewed included Organization for Economic Cooperation and Development (OECD). (2022). *Recommendation of the Council on OECD Guidelines for managing conflict of interest in the public service*. Retrieved 4/29/2024 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Retrieved 4/29/2024 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Retrieved 4/29/2024 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>

¹⁰⁶ In response to conflict-of-interest noncompliance and violations investigated in the course of our work, we have recommended several practices and actions to various school districts, State agencies, and other public entities. Our recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements. See, for example, Arizona Auditor General reports 21-402 Higley Unified School District—Criminal Indictment—Conspiracy, Procurement Fraud, Fraudulent Schemes, Misuse of Public Monies, False Return, and Conflict of Interest; 19-105 Arizona School Facilities Board—Building Renewal Grant Fund; and 17-405 Pine-Strawberry Water Improvement District—Theft and misuse of public monies.

Arizona Health Care Cost Containment System and Arizona Department of Economic Security; and reviewed Department rulemakings completed between June 2018 and October 2021.

- To obtain information for the Questions and Answers, we reviewed statute and federal regulations and HUD documentation and information. We also reviewed Department-provided information for the number of individuals in Balance of State Continuum of Care permanent supportive housing and number of permanent supportive housing rental housing units assisted in fiscal year 2023. Additionally, we reviewed project expenditures for permanent supportive housing rental assistance projects that received Continuum of Care program monies in fiscal year 2023.
- To obtain information for Appendix A, we reviewed federal regulations, statutes, session laws, and Department and federal program/fund documentation. Additionally, we reviewed the Department's fiscal year 2023 annual report.
- To obtain information for Appendix B, we reviewed the Department's fiscal year 2024 funding agreements and award letters for the State Housing Trust Fund and Homeless Shelter and Services Fund. Additionally, we compiled and analyzed unaudited information from the Arizona Financial Information System/AZ360 *Accounting Event Transaction File* and the State of Arizona *Annual Financial Report* for fiscal years 2022 and 2023, and Department-prepared estimates for fiscal year 2024.
- To obtain information for the Introduction, we reviewed Department-prepared information regarding staffing and vacancies. In addition, we compiled and analyzed unaudited information from the Arizona Financial Information System/AZ360 *Accounting Event Transaction File* and the State of Arizona *Annual Financial Report* for fiscal years 2022 and 2023, and Department-prepared estimates for fiscal year 2024.
- Our work on internal controls, including information system controls, included, where applicable, reviewing the Department's policies and procedures and testing Department compliance with these policies and procedures, and assessing compliance with statutes and federal regulations. We reported our conclusions on applicable internal controls in Finding 1 and Sunset Factors 2, 4, 5, 6, and 8.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit of the Department in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to Ms. Serviss and Department staff for their cooperation and assistance throughout the audit.

DEPARTMENT RESPONSE

KATIE HOBBS
Governor



JOAN SERVISS
Director

**STATE OF ARIZONA
DEPARTMENT OF HOUSING**

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September 24, 2024

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, Arizona Department of Housing – Sunset Factors

Dear Ms. Perry:

The Arizona Department of Housing (ADOH) has reviewed the Auditor General's report, *Arizona Department of Housing – Sunset Factors*. The Department is committed to ongoing improvement opportunities and will implement your recommendations as outlined in our response. The responses to the findings and recommendations are enclosed.

The Department appreciates the diligence and collaboration of the Office of Auditor General staff during the Sunset Review process.

Sincerely,

A handwritten signature in black ink, appearing to read "Joan Serviss", followed by a small mark resembling "11".

Joan Serviss, Director
Arizona Department of Housing

Enclosure: ADOH Recommendation Response

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

Recommendation 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:

Recommendation 1a: Measurable goals and targets with benchmarks for reviewing desired performance.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department agrees with setting measurable goals and targets with benchmarks to review outcomes for the Arizona Balance of State Continuum of Care (AZBOSCOC) through its Governance Advisory Board (GAB). The GAB recently established goals for the AZBOSCOC, the Department will work with the GAB to establish SMART goals in the future.

Recommendation 1b: Tracking and review of performance measures and outcomes on an established time frame.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department agrees with tracking and reviewing performance measures and outcomes on an established time frame for the AZBOSCOC through its GAB. The Department will work with the GAB to establish a time frame.

Recommendation 1c: Time frame for updating goals.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department agrees with updating goals on an established time frame and has begun working with the AZBOSCOC GAB to establish regular meetings and structure for goal setting.

Recommendation 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.

Department response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: The AZBOSCOC develops goals around permanent supportive housing (PSH) and as such, the Department, as the administrative entity supporting the AZBOSCOC, will

track PSH expenditures. However, as a Department, we have not established PSH as a Department-wide prioritization and thus do not track PSH projects within our rental housing programs.

Recommendation 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:

Recommendation 3a: Establishing specific and measurable Department-wide and program performance goals or targets and performance measures to track and evaluate goal and target outcomes.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Coupled with the strategic plan, and other governing programmatic requirements, such as regulatory oversight by the Department of Housing and Urban Development (HUD) and state statutory requirements, the Department will implement SMART goals with respect to our defined housing programs to capture successes and measurable outcomes.

Recommendation 3b: Systematically tracking and assessing performance measures and outcomes for all Department-wide and program performance goals and targets.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: See response 3a. In addition to the Department's established strategic plan, the Department will track and assess SMART goals and federal goals in our current internal project management systems.

Recommendation 3c: 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.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: See responses 3a and 3b. The Department will use our strategic plan, federal goals, and internal project management systems to assess annually and make timely modifications to our programs as a result of our evaluation.

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

Recommendation 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.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department has established policies and procedures to prevent incidents of wire fraud. The policies include a secure method of obtaining and verifying wire transfer instructions. The policy has been updated to include notification protocols consistent with SAAM and how to address changes to wiring instructions. The updated policy has been shared Department-wide.

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

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department's fraud policies and procedures have been updated as of July 2024. The Department worked with the Arizona Department of Administration (ADOA) to recover the funds sent to the fraudulent actor(s), and also to ensure appropriate guardrails are in place with the Department's updated policy. With ADOA, the Department's division leadership provided appropriate staff with training on the updated policy. New staff who play a key role in financial management will also receive training on the Department's wire transfer procedures at onboarding time, and all staff with a financial management role will receive an annual reminder training.

Recommendation 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.

Department response: The finding of the Auditor General is not agreed to, and the recommendation will not be implemented.

Response explanation: The Board, which is the entity that stewards the policies and procedures of the Manufactured Housing and Building Division fee setting per state law, complies with §41-4010(A)(4) which requires that the Board establish fee revenue to be not less than 95 percent or more than 105 percent of anticipated expenses for the administration of inspections, licenses, permits, plan reviews, administrative functions, and certificates. All requirements of the statute have been fulfilled to include an assessment of the total annual income derived from such fees against the forecasted expenses. A mechanism is in place to capture all direct and indirect expenses and revenue in order for the Board's annual assessment and fee-setting requirements per §41-4010 (A)(4). The Board's annual fee-setting meeting is open to the public and allows the Board an opportunity to consider public feedback regarding fee changes.

Recommendation 7: The Department should comply with the reporting requirements outlined in A.R.S. §41-3955.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: During the audit years that this Sunset Report covered, the Department provided annual State Housing Trust Fund (HTF) reports to the parties listed in the statute that included grantee recipients; award amount for each grantee; project type; and activity. The Department has amended its FY24 report pursuant to A.R.S. §41-3955 to include the additional items listed in statute including a summary of facilities for which funding was provided during the preceding fiscal year, the cost and geographic location of each facility and the number of individuals benefiting from the operation, construction or renovation of the facility. The Department will also expand the report to include the number of individuals who benefit from housing assistance provided by HTF.

Recommendation 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.

Department response: The finding of the Auditor General is not agreed to and the recommendation will not be implemented.

Response explanation: The Department will continue to produce an annual report in compliance with the statute, that lists the projects funded under the federal and state LIHTC funding rounds for the previous annual cycle and include total development cost. The Department will assess outcomes as part of an annual evaluation process, which includes analyzing the report, market conditions, and stakeholder feedback, and make revisions and modifications as appropriate in the Qualified Allocation Plan.

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

Recommendation 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.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will continue to pursue statutory changes with the Legislature to remove the unnecessary statutes, or in consultation with the Board, will pursue rule changes.

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

Recommendation 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.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: A Department-wide reminder was issued on July 23, 2024, of its public record request (PRR) policies. The Department will continue to follow established public records processes and staff will update our internal PRR log with a note if a request will take longer than five (5) days, including the date of a response to the requestor informing them of the timing, regardless of whether or not the requestor made an inquiry as to timing.

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

Recommendation 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.

Department response: The finding of the Auditor General is not agreed to and the recommendation will not be implemented.

Response explanation: Responsibility is only assigned if a complaint progresses to a Verification and Sign Off Inspection which is the HUD-approved Dispute Resolution Program. The Verification and Sign-Off Inspection is initiated when communication ceases between the consumer and licensee or disagreements occur pertaining to what work is required or what licensee holds responsibility. HUD strongly encourages, per 24 CFR 3288, communication and resolution between the consumer and licensee prior to getting involved. The Department administers the HUD Dispute Program on HUD's behalf.

Recommendation 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.

Department response: The finding of the Auditor General is not agreed to and the recommendation will not be implemented.

Response explanation: As a State Administrative Agency, and administrator of HUD's federal guidelines, the State Plan and Dispute Resolution Program complaint process is active, contains numerous steps and timelines and is approved by HUD per 24 CFR 3288. HUD does not require establishing time frames for all steps as indicated.

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

Recommendation 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.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: As of May 2024, the Department has revised and implemented our conflict-of-interest policies and procedures, requiring all staff to complete a conflict-of-interest form

annually. All forms will be reviewed to determine whether there are any substantial interest disclosures.

