

Performance Audit and Sunset Review

Arizona Department of Housing

Department took steps to implement recommendations from its 2024 sunset review but its Low Income Housing Tax Credit program monitoring did not ensure some housing units at properties we reviewed were safe, sanitary, and rented only to eligible tenants



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ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

October 1, 2026

Members of the Arizona State Legislature

The Honorable Katie Hobbs, Governor

Director Dhillon-Williams
Arizona Department of Housing

Transmitted herewith is a report of the Auditor General, *A Performance Audit and Sunset Review of the Arizona Department of Housing*. This report is in response to an October 7, 2025, resolution of the Joint Legislative Audit Committee. The performance audit and sunset review 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 (Department) agrees with all the findings and plans to implement all the recommendations. My Office will follow up with the Department in 6 months to assess its progress in implementing the recommendations. I express my appreciation to Director Dhillon-Williams 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

Performance Audit and Sunset Review

Department took steps to implement recommendations from its 2024 sunset review but its Low Income Housing Tax Credit program monitoring did not ensure some housing units at properties we reviewed were safe, sanitary, and rented only to eligible tenants

Audit purpose

To determine if the Department monitored Low Income Housing Tax Credit (LIHTC) properties consistent with key program requirements in fiscal years 2020 through 2025 and implemented 31 recommendations from its 2024 sunset review; and to provide information on LIHTC and State low-income housing tax credit (STC) programs and respond to the 10 statutory sunset factors.¹

Key findings for LIHTC

- ▶ Our review of Department records for 10 LIHTC and STC properties found it:
 - Did not inspect 1 or more federally required health and safety standards for 126 of 153 housing unit inspections and/or notify some property owners of violations, increasing the risk that tenants lived in unsafe or substandard housing.
 - Lacked evidence it completed federally required reviews of tenant income eligibility and/or rent rates for 53 of 153 files it inspected, increasing the risk that tenants were ineligible for low-income housing or paid incorrect rental rates.
- ▶ Department developed the State's Qualified Allocation Plan to establish eligibility requirements and scoring criteria for making LIHTC and STC awards to housing developers.
- ▶ In calendar years 2020 through 2025, the Department awarded more than \$4.3 billion in tax credits for the development of 21,549 low-income housing units.² The Department awarded an average of approximately \$201,000 in tax credits per low-income housing unit for all projects that received any federal and State tax credits in calendar years 2020 through 2025. During that time period, the average amount of federal and State tax credits awarded per low-income housing unit substantially increased, as did the per unit development costs.
- ▶ Research has found that the overall structure for developing LIHTC properties can impose some barriers to these properties' cost efficiency, such as higher costs associated with administration, financing, and construction in comparison to market-rate properties.

¹ The Arizona Auditor General conducted this performance audit and sunset review of the Department pursuant to an October 7, 2025, resolution of the Joint Legislative Audit Committee. In response to a special audit request, the Joint Legislative Audit Committee also directed us to review the Department's Low-Income Housing Tax Credit program as part of the Department's performance audit and sunset review. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq.

² The amount of tax credits reported is the total amount of tax credits that can be claimed for a 10-year period once the property is placed in service.

- ▶ Our review of housing market research and analysis of affordable rental housing supply in Arizona found there is a shortage of affordable housing for low-income households, and LIHTC and STC properties provide needed affordable housing and other benefits.
- ▶ We provided information on each of the LIHTC and STC awards the Department made in calendar years 2020 through 2025, including the project name, developer, development costs, total tax credit amount awarded, and tax credit amount per unit.

Key findings for sunset factors

- ▶ Department developed a written plan outlining steps it will take to implement key practices for providing special needs housing, emergency shelter, and affording housing development oversight, but it is still in process of implementing its written plan.
- ▶ Despite reporting to the Legislature that its review did not identify any improper payments made to special needs housing grantees, the Department identified the need for additional supporting documentation for some expenses, which is necessary to review prior to reporting that it did not pay grantees for unallowable expenses.
- ▶ Department developed a comprehensive performance-measurement system, but some program-performance measures need improvement.
- ▶ Department developed and began implementing policies, procedures, and training for wire transfers.
- ▶ Department and the Board of Manufactured Housing implemented 6 of 31 recommendations from the 2 reports we issued as part of the Department's 2024 sunset review and we identified steps the Department should take to fully implement the remaining recommendations.

Key recommendations to the Department

- ▶ Complete inspections of LIHTC properties consistent with program requirements.
- ▶ Continue to implement its written plan for implementing the key practices for providing program oversight, including updating it as necessary.
- ▶ Continue its review of approved and paid payment requests, including obtaining and reviewing adequate supporting documentation.
- ▶ Revise and implement its comprehensive performance measurement system procedures to include processes for tracking, evaluating, and establishing annual measurable goals, performance benchmarks, and measurable outcomes.
- ▶ Continue to implement its policies and procedures for processing wire transfers, and provide training to all relevant employees on its wire transfer policies and procedures.

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Department's LIHTC program inspections, record reviews, and reporting did not ensure some LIHTC housing units at properties we reviewed were safe, sanitary, and rented only to eligible low-income tenants at allowable rates

- ▶ Department's LIHTC program inspections, record reviews, and reporting are important to help ensure LIHTC housing units meet health and safety standards and LIHTC unit property owners rent only to eligible tenants at allowable rental rates
- ▶ Department LIHTC inspections, record reviews, and reporting did not ensure some housing units at properties we reviewed met health and safety requirements, were rented to eligible low-income tenants at appropriate rent rates, and property owners were reported to the IRS for noncompliance with program requirements
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Prior recommendations

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INTRODUCTION

The Arizona Auditor General has completed a performance audit and sunset review of the Arizona Department of Housing (Department).¹ This performance audit and sunset review determined whether the Department monitored low-income housing tax credit properties consistent with key federal, State, and/or program guidance in fiscal years 2020 through 2025; provides information related to low-income housing tax credit programs and responses to the statutory sunset factors; and includes information on the implementation status of recommendations from the 2 reports issued as part of the Department's 2024 performance audit and sunset review.

Department is responsible for establishing programs and distributing monies to address affordable housing issues in the State

The Department was established in 2002, and its 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 to develop 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).⁵

Department mission

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

Source: Department website.

The Department's activities related to these responsibilities include:

¹ The Arizona Auditor General conducted this performance audit and sunset review of the Department pursuant to an October 7, 2025, resolution of the Joint Legislative Audit Committee. In response to a special audit request, the Joint Legislative Audit Committee also directed us to review the Department's Low-Income Housing Tax Credit program as part of the Department's performance audit and sunset review.

² Arizona Revised Statutes (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 household size.

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.

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

► **Awarding tax credits and distributing monies intended to support affordable housing development**

The Department is responsible for awarding tax credits to support the construction, rehabilitation, or acquisition of affordable rental housing. For example, in fiscal year 2025, the Department awarded nearly \$600 million in federal tax credits through the federal Low Income Housing Tax Credit (LIHTC) program, a U.S. Internal Revenue Service (IRS) program intended to incentivize private investment in affordable housing by providing federal tax credits to developers for qualified affordable housing projects.^{6,7} The Department also awarded State tax credits through the State Low-Income Housing Tax Credit (STC) program, a State program intended to incentivize the construction of more affordable units in the State by providing State tax credits to developers for projects that were also awarded federal tax credits (see Questions and Answers, pages 24 through 54, for more information). In calendar years 2022 through 2025, the Department awarded a total of \$15.8 million in State tax credits to 16 projects.⁸ However, at the end of calendar year 2025, the STC program sunset and was discontinued.⁹ In awarding tax credits to developers, the Department is required to adhere to the State's Qualified Allocation Plan (QAP), which outlines the rules, requirements, and goals for awarding tax credits in Arizona (see Questions and Answers, page 31, for more information on the QAP).

The Department is also responsible for administering the State Housing Trust Fund, which comprises State-appropriated monies that can be used for various purposes, including to support affordable housing development, such as through loans to housing developers that qualify for the LIHTC program.¹⁰ According to the Department's fiscal year 2025 annual report, it assisted with the development of 5,225 units of affordable single and multifamily rental housing in fiscal year 2025 by awarding tax credits from the LIHTC and STC programs, and distributing monies from the State Housing Trust Fund.

► **Monitoring compliance of properties allocated federal and State tax credits**

The Department is responsible for monitoring and reporting on compliance with LIHTC program requirements for properties that have been allocated tax credits.^{11,12} In exchange for receiving the tax credits, the developer is required to reserve a certain number of housing units for lower-income households for a specific time frame, which is typically

⁶ The IRS 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 authorized entity to award federal tax credits to qualified low-income housing projects in Arizona.

⁷ Federal low-income housing tax credits reduce a developer's tax liability for a 10-year period. The approximate \$600 million in tax credits represents the total amount of credits that can be claimed for a 10-year period.

⁸ The Department reported that as of July 2026, 6 of the 16 housing projects had been placed into service.

⁹ A.R.S. §41-3954 authorized the STC program in 2021 and established its sunset date on December 31, 2025.

¹⁰ State Housing Trust Fund monies can also be used for various other purposes, such as shelter operations, construction of transitional housing units, and the Department's Arizona is Home program that provides homebuyers with down payment and mortgage interest rate reduction assistance.

¹¹ A.R.S. §35-728.

¹² Although the STC program sunset in December 2025, the Department remains responsible for monitoring properties that received State tax credits for 30 years. The Department's monitoring responsibilities for low-income housing developments that receive both State tax credits and federal tax credits are the same as those for developments that only receive federal tax credits.

30 years. During this time frame, the Department is responsible for conducting an on-site inspection of the LIHTC property every 3 years to assess if LIHTC units meet federal health and safety requirements, reviewing property owners' files and tenant documentation to assess if tenants qualify as low income and property owners charge affordable rent to low-income tenants, and reporting identified noncompliance to the IRS.¹³ For calendar years 2020 through 2025, the Department conducted an average of 159 LIHTC property inspections annually. See Finding 1, pages 11 through 23, for problems we identified with the Department's LIHTC program monitoring, and Appendix A, pages a-1 through a-18, for information on the Department's tax credit awards.

► **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. 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.^{14,15}

► **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 Appendix B, pages b-1 through b-8, for information on our followup work related to our 2024 performance audit of the Department's oversight responsibilities.¹⁶

► **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

¹³ The Department is required to report all noncompliance with LIHTC program requirements to the IRS even if the noncompliance was subsequently corrected by the project owner. Within the report to the IRS, the Department must specify the correction status—whether the noncompliance was corrected or uncorrected within 90 days after the property owner was notified.

¹⁴ 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.

¹⁵ 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 and Pima, are each served by other Continuum of Care programs.

¹⁶ See Arizona Auditor General report 24-113 *A Performance Audit of the Arizona Department of Housing—Oversight of Selected Housing Programs*.

and safety standards for manufactured homes, factory-built buildings, and mobile homes (see textbox for key terms).¹⁷ 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.¹⁸ Additionally, statute authorizes the Department to collect various fees related to its regulatory responsibilities, including for inspections, licensing, and permitting. Further, HUD has authorized the Department to administer a manufactured housing dispute resolution program in Arizona, including enforcing compliance with HUD-established requirements for complaints regarding manufactured home defects, such as structural, electrical, or plumbing issues (see Appendix C, pages c-1 through c-9, for information on our followup work related to the Department's manufactured housing responsibilities).

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

The Department acts as the Public Housing Agency for Yavapai County and the Section 8 Project-Based Contract Administrator for the State.¹⁹ 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 for veterans.²⁰

¹⁷ Laws 2016, Ch. 128, transferred these responsibilities to the Department from the Department of Fire, Building and Life Safety.

¹⁸ According to the Department, it partners with 43 local jurisdictions that conduct installation inspections and permit issuance within their jurisdictions.

¹⁹ Yavapai County does not have its own public housing authority. 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. 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.

²⁰ 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 HUD's behalf as the State's Section 8 Project-Based Contract Administrator.

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 voucher payments to property owners providing Section 8 housing.

▶ **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 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 2025 annual report, it distributed more than \$14.5 million to renovate or repair 1,157 owner-occupied homes in fiscal year 2025, including \$8.9 million in Weatherization Assistance Program monies for energy efficiency improvements.

Department is organized into 5 divisions and assisted by 2 public bodies

As of June 2026, the Department had 97 filled full-time equivalent positions (FTEs) and 12 vacancies, and is organized into the following 5 divisions:

▶ **Director's Office (8 FTEs, 1 vacancy)**

Responsible for overseeing the Department, and includes the Department's director; a deputy director; 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; a legal support administrator; and a chief of government relations.

▶ **Housing and Community Development Division (25 FTEs, 2 vacancies)**

Responsible for administering programs for rental housing development, including awarding federal tax credits to affordable housing developers for the LIHTC program to promote the development of affordable rental housing. Additionally, this division is responsible for community revitalization and housing rehabilitation. As part of its responsibilities, this division carries out the Department's responsibilities related to the Balance of State Continuum of Care.

▶ **Section 8 and Compliance Division (17 FTEs, 2 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 (32 FTEs, 5 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 (15 FTEs, 2 vacancies)**

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.^{21,22} Statute requires the Board to consist of 9 Governor-appointed members, and the Board had 7 members and 2 vacancies as of June 2026.²³

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.²⁴ The Balance of State Continuum of Care Governance Charter requires the Advisory Board to consist of 17 members, and as of July 2026, 14 of 17 positions were filled.²⁵

Department's revenues were primarily from federal aid, and its expenditures were primarily for various housing project disbursements, Section 8 programs, and other aid programs

As shown in Table 1, pages 7 through 10, the Department has various revenue sources, including federal aid, unclaimed property sales, various fees, including licensing fees and other charges for services, interest income, and loan proceeds. The Department estimated its fiscal year 2026 revenues will total approximately \$198 million, with more than \$133 million estimated to come from other federal aid, such as federal Section 8 programs (see pages 4 through 5, for information on the Department's responsibilities for administering federal Section 8 programs). The Department estimated its fiscal year 2026 expenditures will total approximately \$246 million, consisting primarily of Section 8 program expenditures, State Housing Trust Fund disbursements, other aid provided for various State and federal programs, Homeless Shelter and Services Fund disbursements, and payroll and related benefits (see Table 1, footnotes 20, 21, 22, and 24, for additional information about some of these expenditures).

²¹ A.R.S. §41-4009(A).

²² Additionally, the Board is responsible for establishing in rule the fees the Department develops for inspections, licenses, permits, plan reviews, administrative functions, and certificates.

²³ 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 buildings manufacturers, 1 member representing the installer industry, 1 member representing manufactured home park owners, 1 member representing financial institutions, 1 member representing 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 2026, the 2 public member positions have been vacant since January 2024 and March 2025.

²⁴ 24 Code of Federal Regulations (CFR) §578.5(b).

²⁵ The Advisory Board membership includes 1 member representing the Department, 1 member representing the Arizona Department of Education, 1 member representing the Arizona Department of Economic Security, 1 member representing the Arizona Health Care Cost Containment System, 2 members representing Arizona Housing Coalition, at least 1 homeless or formerly homeless individual, at least 1 representative from Native American/ American Indian tribal communities, at least 3 elected public officials representing Arizona Balance of State jurisdictions or districts, at least 2 representatives of law enforcement, and a maximum of 5 subrecipients.

Table 1**Schedule of revenues, expenditures, and changes in fund balances**

Fiscal years 2024 through 2026

(Unaudited)

	2024 (Actual)	2025 (Actual)	2026 (Estimate)
Beginning fund balance	\$204,107,309	\$314,024,763	\$285,335,495

Revenues**State General Fund appropriations**

State Housing Trust Fund deposit ¹	\$150,000,000	\$15,000,000	\$0
Homeless Shelter and Services Fund deposit ²	40,000,000	0	0
Homeless Services Grant Pilot ³	3,326,444	5,786,544	0
Homeless Shelter and Services ⁴	14,053,090	5,866,636	0
Mobile Home Relocation Fund deposit ⁵	5,000,000	0	0
Military Transitional Housing Fund deposit ⁶	1,900,000	0	0
Subtotal	\$214,279,534	\$26,653,180	\$0

Intergovernmental revenues

Federal pandemic aid ⁷	\$40,503,441	\$53,120,713	\$29,995,100
Other federal aid ⁸	114,887,846	106,826,377	133,299,745
Subtotal	\$155,391,287	\$159,947,090	\$163,294,845

Other revenue sources

Filing fees ⁹	\$9,153,360	\$10,603,630	\$7,966,944
Fees and charges for services	2,202,708	3,312,699	3,156,883
Unclaimed property sales ¹⁰	2,500,000	2,500,000	2,500,000
Manufactured housing revenues ¹¹	2,974,973	3,553,872	3,829,023
Fines and penalties ¹²	9,850	2,119,825	90,885
Interest income ¹³	7,626,509	10,179,137	8,906,680
Loan proceeds ¹⁴	6,830,236	5,115,252	6,020,095
Private grants ¹⁵	1,879,797	1,562,702	2,452,337
Other revenues	5,510	24,252	41,781

Table 1 continued

Transfers from AHCCCS ¹⁶	0	4,000,000	0
Other transfers in	0	0	5,000
Net credit card fees	-77,990	-92,722	-105,496
Subtotal	\$33,104,953	\$42,878,647	\$34,864,132
Total revenues	\$402,775,774	\$229,478,917	\$198,158,977

Expenditures and transfers**Operating expenditures**

Payroll and related benefits ¹⁷	\$8,584,056	\$10,093,307	\$10,137,802
Professional and outside services	2,758,325	2,260,134	1,928,424
Travel ¹⁸	211,040	289,457	406,074
Food ¹⁹	0	38,865	147,037
Other operating	2,568,443	1,750,924	1,732,904
Subtotal	\$14,121,864	\$14,432,687	\$14,352,241

Aid to other organizations and individuals

State Housing Trust Fund disbursements ²⁰	\$41,810,871	\$48,461,908	\$57,637,447
Homeless Shelter and Services Fund disbursements ²¹	19,105,399	16,363,747	16,118,009
Homeless services grant disbursements	3,326,444	5,786,544	326,698
Section 8 programs ²²	72,364,215	87,505,974	94,931,363
Homeowner Assistance Fund disbursements ²³	54,722,218	0	0
Other aid ²⁴	79,165,076	84,968,545	59,504,834
Subtotal	\$270,494,223	\$243,086,718	\$228,518,351

Equipment expenditures

Capital equipment	\$126,916	\$531,014	\$80
Noncapital equipment ²⁵	2,587,999	82,336	152,584
Subtotal	\$2,714,915	\$613,350	\$152,664

Table 1 continued

Transfers			
Transfers to AHCCCS ²⁶	\$5,492,600	\$0	\$2,500,000
Transfers to Governor's Office	30,000	30,000	30,000
Other transfers out	4,718	5,430	9,954
Subtotal	\$5,527,318	\$35,430	\$2,539,954
Total expenditures and transfers	\$292,858,320	\$258,168,185	\$245,563,210
Ending fund balance	\$314,024,763	\$285,335,495	\$237,931,262
Net change in fund balance (Difference between revenues and expenditures and transfers)	\$109,917,454	- \$28,689,268	- \$47,404,233

- ¹ 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. In addition, Laws 2024, Ch. 209, §56, appropriated a one-time deposit of \$15 million to the Department's State Housing Trust Fund.
- 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 Arizona cities, towns, and counties to provide services to reduce homelessness. The Department used approximately \$3.3 million of these appropriated monies in fiscal year 2024 and used approximately \$5.8 million in fiscal year 2025. 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 used approximately \$14 million and \$5.9 million of these appropriated monies in fiscal years 2024 and 2025, respectively.
- 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 Coronavirus State and Local Fiscal Recovery Fund, Home Investment Partnerships Program, and COVID-19 Community Development Block Grant monies.
- ⁸ Other federal aid consisted of monies received for various programs. The majority of the monies consist of those for the Section 8 programs.
- ⁹ According to the Department, filing fee revenues primarily consisted of LIHTC application, qualification, reservation, certification, and technical review fees, as well as homeownership, loan, and administrative fees. The Department also 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 44-340, 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 the Arizona Department of Revenue fund was deposited into the State Housing Trust Fund in each of the fiscal years 2024 through 2026.
- ¹¹ The Department reported that 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, the increase in fiscal year 2025 fines and penalties primarily consisted of monies the Department received from an insurance payment totaling \$2 million to cover the loss of a fraudulent wire transfer of \$2 million from the State Housing Trust Fund in 2023. See Sunset Factor 2, pages 62 through 63, for more information on this fraudulent wire transfer and the Department's effort to develop and implement policies, procedures, and training for wire transfers.
- ¹³ According to the Department, the increase in interest income in fiscal year 2025 was primarily related to the additional appropriation deposited into the interest-bearing State Housing Trust Fund, along with unexpended fiscal year 2024 monies that remained in the account because of a setback to projects not yet begun or in the early stages of implementation. See footnote 1 for more information.

Table 1 continued

- ¹⁴ 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.
- ¹⁵ The Department reported that it receives nonfederal utility grant monies from Southwest Gas, Arizona Public Service, and Salt River Project to support its low-income Weatherization Assistance Programs.
- ¹⁶ In fiscal year 2025, the Department received a total of \$4 million from AHCCCS' Seriously Mentally Ill Housing Trust Fund to supplement 2 housing projects funded with multiple sources of monies.
- ¹⁷ According to the Department, the increase in fiscal year 2025 payroll and related benefits was primarily related to performance-based merit increases and an increase in staffing levels to support the Department's operations.
- ¹⁸ According to the Department, the increase in travel costs in fiscal year 2026 was primarily related to the Department's staff resuming its regular on-site monitoring visits in rural areas, following the COVID-19 pandemic.
- ¹⁹ According to the Department, the increase in food costs in fiscal year 2026 was largely attributed to an increase in attendance at its Arizona Housing Forum, which is the Department's annual conference for housing stakeholders that includes training opportunities, guest speaker presentations, and networking activities for attendees. According to the Department, these costs were offset by conference attendance fees and sponsors that partner with the Department to hold the conference, resulting in net-zero cost to the Department's general operating funds.
- ²⁰ State Housing Trust Fund disbursements were for various reported purposes, such as to assist with rental housing development and provide special needs housing.
- ²¹ Homeless Shelter and Services Fund disbursements were for various reported purposes, such as providing shelter through hotel leasing agreements or safe outdoor spaces.
- ²² 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.
- ²³ The Department reported the Homeowner Assistance Fund program fully expended its grant allocation on January 11, 2024. Consequently, fiscal year 2024 reflects only a partial period of operation.
- ²⁴ 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.
- ²⁵ According to the Department, the noncapital equipment costs consisted of additional equipment purchases such as computer hardware, telecommunications infrastructure, software applications, and user licenses for the additional staff in fiscal year 2025.
- ²⁶ The Department made a one-time transfer to AHCCCS in fiscal year 2024 as part of the Housing and Health Opportunities initiative to enhance and expand housing services and interventions for AHCCCS members who are homeless or at risk of being homeless.

Source: Auditor General staff analysis of the AZ360 Accounting Event Transaction File and the State of Arizona Annual Comprehensive Financial Report for fiscal years 2024 and 2025, and Department-prepared estimates for fiscal year 2026.

Department's LIHTC program inspections, record reviews, and reporting did not ensure some LIHTC housing units at properties we reviewed were safe, sanitary, and rented only to eligible low-income tenants at allowable rates

Department's LIHTC program inspections, record reviews, and reporting are important to help ensure LIHTC housing units meet health and safety standards and LIHTC unit property owners rent only to eligible tenants at allowable rental rates

As explained in the Introduction on pages 2 through 3, the Department is responsible for monitoring and reporting on compliance with LIHTC program requirements for properties that have been awarded tax credits.¹ These federally required LIHTC program compliance monitoring and reporting responsibilities, which include onsite inspections of LIHTC properties, rental record reviews, and reporting noncompliance to the IRS, are important to ensure LIHTC program requirements are met (see issues 1 through 3, pages 14 through 19, for specific program requirements).²

Specifically, as illustrated in Figure 1, page 13, the Department's LIHTC program-monitoring responsibilities can help ensure LIHTC properties awarded federal and State tax credits comply with program requirements intended to:

- ▶ Prevent tenants from living in substandard conditions that do not meet federal health and safety standards.
- ▶ Ensure LIHTC housing units are rented only to eligible low-income individuals and property owners charge allowable rental rates.
- ▶ Hold property owners accountable to provide low-income housing by reporting program noncompliance to the IRS, which can recapture tax credits, and by considering owner noncompliance as part of the Department's review and award process for future tax credit applications.³

¹ According to 26 USC 42 and 26 CFR 1.42-5, the Department is responsible for monitoring and reporting on compliance with LIHTC program requirements for at least 15 years, beginning when a property has been placed into service or the year following. As outlined in the Department's QAP, the Department has elected to continue conducting onsite inspections and rental record reviews for an additional 15 years—30 years in total.

² A.R.S. §41-3954 required the Department to award State tax credits to projects that also qualify for federal tax credits as part of the LIHTC program. Therefore, projects awarded State tax credits are subject to the same federal monitoring and reporting requirements.

³ According to 26 USC 42(j), the IRS may recapture previously claimed federal tax credits or reduce the amount of tax credits property owners may claim because of noncompliance with LIHTC program requirements. Additionally, A.R.S. §§43-1075 and 43-1163 stipulate that should the IRS determine that it is necessary to recapture all or a portion of federal tax credits, a proportional amount of State tax credits is also subject to recapture by the Arizona Department of Revenue.

Department LIHTC inspections, record reviews, and reporting did not ensure some housing units at properties we reviewed met health and safety requirements, were rented to eligible low-income tenants at appropriate rent rates, and property owners were reported to the IRS for noncompliance with program requirements

Our review of Department records for a sample of 10 properties that were awarded State and/or federal tax credits that were subject to Department compliance monitoring and reporting in fiscal years 2020 through 2025 found that the Department did not consistently or fully implement federal requirements related to LIHTC program compliance monitoring and reporting (see textbox for more information on the properties we reviewed and Figure 1 on page 13 for information about the Department's compliance monitoring and reporting responsibilities).⁴ Specifically, although our review found that the Department timely inspected the 10 sampled properties once every 3 years as required, our review identified issues related to the Department's (1) inspections of health and safety standards and noncompliance notices to property owners when repairs were needed (property owner noncompliance notices), (2) reviews of tenant income eligibility and rent records in property owners' files, and (3) notifications of program noncompliance to the IRS (IRS noncompliance notices).⁵ These 3 issues increased the risk that tenants lived in unsafe or substandard housing, tenants were ineligible for low-income housing or paid incorrect rental rates, and owners received tax credits despite their LIHTC properties not meeting program requirements.

We reviewed 10 LIHTC properties that included more than 900 affordable housing units serving low-income individuals or families

The 10 LIHTC properties we reviewed were subject to Department compliance monitoring and reporting in fiscal years 2020 through 2025, and included:

- More than 900 total affordable housing units placed into service between 1998 and 2025.
- Housing units for low-income individuals or families, including those serving specific groups such as the elderly, unhoused, and/or individuals with serious mental illness.
- Properties whose owners were awarded more than \$150 million in federal and State tax credits to claim over a 10-year period.¹

¹ Property owners may claim tax credits over a 10 year-period, beginning the year the property is placed into service or the year thereafter.

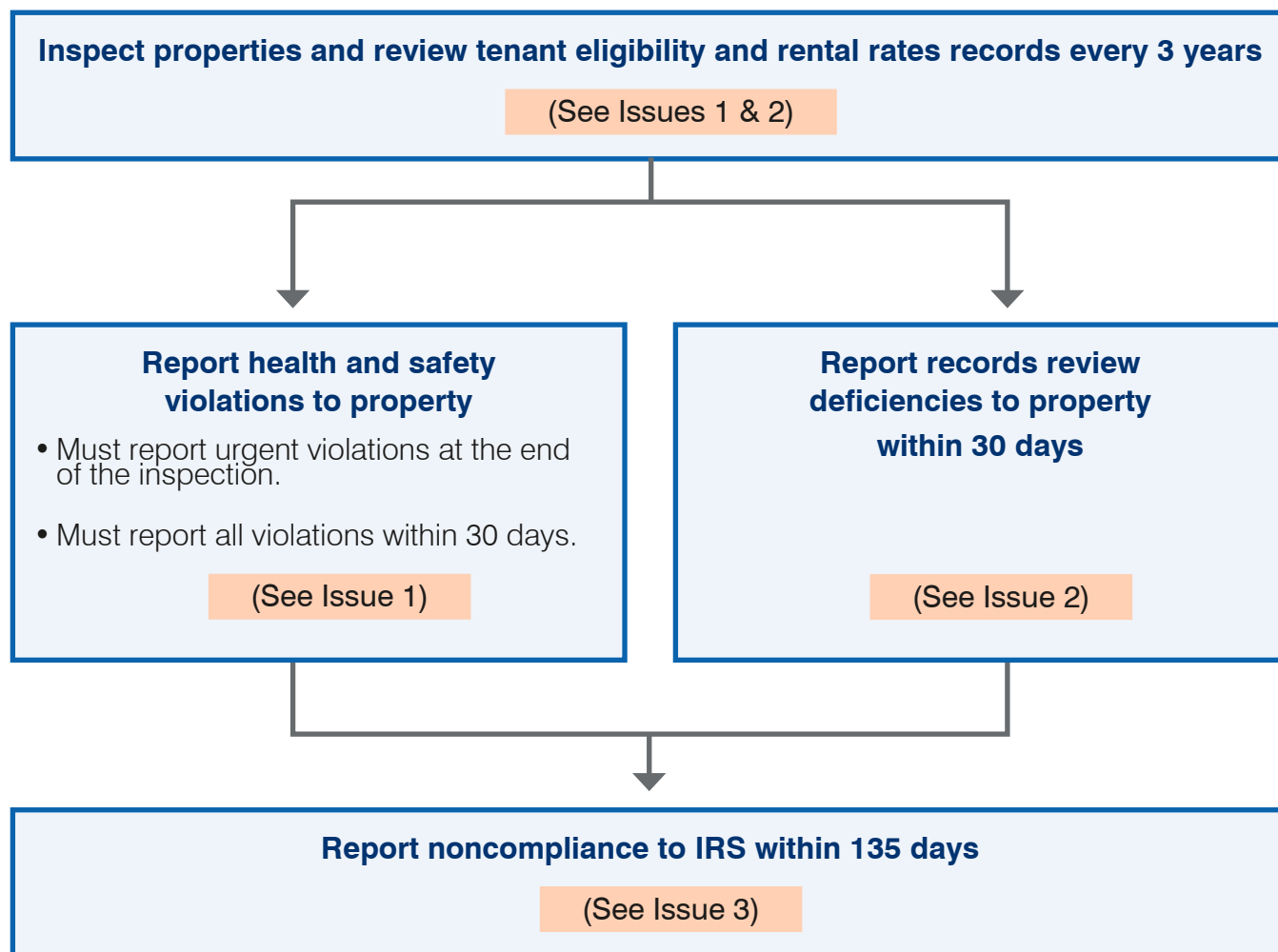
Source: Auditor General staff review of Department's website, LIHTC agreements with property owners, and tax credit allocation and certification IRS reports for the sampled LIHTC properties.

⁴ We selected and reviewed a sample of 10 of 512 LIHTC properties that were subject to Department compliance monitoring and reporting during fiscal years 2020 through 2025, including 4 judgmentally selected properties that received both State and federal tax credits that were subject to inspection during the audited period, and 6 randomly selected properties that only received federal tax credits. For each of the sampled properties, we reviewed the Department's records associated with the most recent property inspection that was completed by the Department.

⁵ 26 CFR 1.42-5(c)(2) requires the Department to perform on-site inspections and review property owner records for LIHTC properties at least every 3 years, beginning the second calendar year after the last building in the property is placed into service.

Figure 1

Department responsible for inspecting LIHTC properties and reporting noncompliance



Source: Auditor General staff review of 26 CFR 1.42-5, IRS guidance, and Department's reported process.

Issue 1: Department did not inspect 1 or more federally required health and safety standards for 126 of 153 housing unit inspections we reviewed and/or notify some LIHTC property owners of health and safety violations it identified, increasing the risk that tenants lived in unsafe or substandard housing

Our review of 153 tenant unit inspection reports and the noncompliance notices the Department sent each of the 10 property owners of inspection violations it identified found that the Department:⁶

► **Lacked evidence it inspected 1 or more health and safety standards for 82% of tenant unit inspections we reviewed**

Federal regulations require the Department to inspect tenant units for compliance with federal health and safety standards (see textbox for examples).⁷ However, the Department did not inspect or document that it inspected 1 or more federally required health and safety standards for 126 of 153 (or 82%) tenant unit inspections we reviewed.

Examples of health and safety violations Department must inspect

The Department must inspect more than 60 items and/or categories and identify if corrections are needed to address, for example:

- Missing or broken smoke alarms.
- Evidence of cockroaches, rats, or other pest infestations.
- Broken glass or other sharp edges.
- Blocked access to emergency exits.
- Damaged or unprotected electrical outlets.

Source: Auditor General staff review and summary of federal inspection standards.

For example, the inspection reports Department staff completed for the 126 unit inspections did not indicate whether the Department inspected various requirements, such as smoke alarms, hot water heaters, electrical panels, showers, stoves, or other items, and/or whether repairs or corrections were needed to meet requirements.

► **Failed to notify LIHTC property owners of 45 inspection violations it identified**

Federal regulations require the Department to notify property owners when it identifies violations during an inspection that require repair or correction, and Department policies and procedures establish guidance for property owner noncompliance notices.⁸ However, the Department failed to include some health and safety violations it identified during

⁶ The Department inspected between 8 and 24 tenant units at each of the 10 properties in our sample.

⁷ 26 CFR 1.42-5(d) requires inspections to be completed using either local health and safety codes or the federal health and safety standards established within 24 CFR 5.703, which as of May 2023 includes the National Standards for the Physical Inspection of Real Estate (NSPIRE). According to the Department, it has opted to use federal standards and began implementing NSPIRE in October 2024, prior to the mandatory implementation date in October 2025.

⁸ 26 CFR 1.42-5(e) requires the Department to promptly inform property owners of program noncompliance it identifies in writing, such as noncompliance notices informing owners of property inspection violations. As discussed in the Introduction on pages 2 through 3, after the Department reports noncompliance to the property owner, the Department is responsible for determining if the noncompliance is corrected. Although not part of our formal review, we saw some evidence that the Department received work orders, photos, invoices, and other documents from property owners demonstrating that noncompliant items had been corrected.

inspections in the property owner noncompliance notices for 6 of 10 properties we reviewed. Specifically, we identified a total of 45 violations for the 6 properties that the Department did not include in property owner noncompliance notices—key examples include hot water heaters with improper piping and nonfunctioning range burners, putting residents at increased risk of injury.⁹

► **Took up to 115 days after completing property inspections to notify property owners of health and safety violations, including urgent problems requiring correction within 24 hours**

Federal regulations require the Department to promptly notify property owners of violations.¹⁰ Although federal regulations do not define a specific time frame for prompt notifications, the Department reported its goal is to provide property owner noncompliance notices within 30 days of completing an inspection. Additionally, federal program guidance and the Department's procedures indicate that the Department should provide notice of violations that pose serious health and safety risks at the end of the inspection.¹¹

However, our review of property owner noncompliance notices for the 10 properties we reviewed found the Department:

- Took between 40 and 115 days after completing inspections to issue property owner noncompliance notices for 6 of the 10 properties, inconsistent with its goal of issuing the notices promptly, within 30 days. Property owner noncompliance notices for these 6 properties included 163 violations that required repairs or corrections, such as trash inside or outside of units, missing or inoperable smoke alarms, an improperly installed water heater discharge line, and animal feces in front of a property building.¹²
- Did not notify, or did not document that it notified, the property owner of urgent health and safety violations at the end of the inspection for 3 of 10 properties we reviewed. For example, the Department identified 14 health and safety issues requiring correction within 24 hours at 1 property, such as infestations of rodents and gnats, a smoking stove, and blocked escape access, but the Department did not provide notice of the violations until 115 days after the inspection was completed.¹³

⁹ The Department inspected a total of 85 units for the 6 properties.

¹⁰ 26 CFR 1.42–5(e).

¹¹ According to federal program guidance, Department should provide these notices to an on-site representative to the property owner.

¹² The 163 violations the Department included in noncompliance notices to these 6 property owners did not include the 45 violations it failed to report, as mentioned previously (see pages 14 through 15).

¹³ These 3 properties were also included in the 6 properties for which the Department did not issue property owner noncompliance notices promptly and were issued more than 30 days after completing inspections.

► **Did not inspect the minimum number of tenant units required for 1 of the 10 properties we reviewed**

Federal regulation requires the Department to inspect a minimum number of low-income tenant units at each LIHTC property every 3 years, but the Department did not inspect the minimum number of tenant units at 1 of the 10 properties we reviewed.¹⁴ Specifically, the Department inspected 16 units at the property instead of the required 20 units.

The Department's failure to fully inspect tenant housing and timely notify property owners of violations it identified has resulted in low-income residents living in unsafe or substandard housing, and increased the risk that health and safety hazards in tenant units were not corrected in a timely manner. For example, as illustrated in the textbox, the Department waited 82 days to notify a property owner of health and safety violations it identified during an inspection, and the property owner did not provide evidence that they corrected the violations for another 85 days—a total of 167 days after the Department's inspection. Additionally, absent documenting that it inspected all federally required health and safety standards and/or inspecting the minimum number of units required by federal regulations, the Department cannot ensure it reported potential noncompliance of property owners that are claiming tax credits to the IRS and lacks the required level of assurance that property owners consistently demonstrated compliance with health and safety standards on a broader scale.

Tenant lived with health and safety hazards for 167 days after the Department conducted an inspection

An October 8, 2025, Department inspection of Hollywood Ridge I in Peridot, Arizona—a LIHTC property awarded a total of more than \$4.3 million in federal tax credits in 2005—identified 2 urgent health and safety violations that were not reported to an on-site property representative at the end of the inspection as required:¹

- A pest infestation inside of a resident's home.
- An outdoor electrical outlet that lacked proper ground-fault circuit-interrupter (GFCI) protection, exposing residents to risk of electrical shock and fire.²

Instead, the Department did not notify the property owner of these 2 urgent violations until December 29, 2025—82 days after the inspection—and the property owner did not address these hazards until March 24, 2026—167 days after the Department completed the inspection.

¹ The \$4.3 million in tax credits represents the total amount to be claimed for a 10-year period.

² According to the U.S. Consumer Product Safety Commission, a GFCI is an inexpensive electrical device that can be installed in an electrical system or built into a power cord to protect from severe electrical shocks and prevent electrical fires. The *National Electrical Code* has required GFCIs on outdoor electrical outlets since 1973.

Source: Auditor General staff review and summary of Department inspection documentation and Department website.

¹⁴ 26 CFR 1.42-5(c) and Section 42, Low-Income Housing Credit Compliance-Monitoring Regulations, 85 FR 40610-01 (July 7, 2020) specify the Department must randomly select the minimum number of tenant units at each LIHTC property and define the minimum number of units as the lesser of 20% of the low-income tenant units at the property or the minimum sample size defined in 26 CFR 1.42-5(c) based on the total number of the low-income tenant units at the property.

Furthermore, by not documenting inspection violations or meeting minimum sample size requirements, the Department does not have an accurate and comprehensive record of property owners' LIHTC compliance, increasing the risk that the Department will award future tax credits to property owners that should not be eligible for them. Specifically, according to the Department's QAP, the Department considers prior history of noncompliance with program requirements when awarding tax credits, including that the Department may disqualify applicants with noncompliant properties.

Issue 2: Department's federally required reviews of tenant income eligibility and rent rates were not always complete, increasing risk that tenants are paying incorrect or ineligible for low-income rent rates

Our review of the 10 LIHTC properties found the Department did not always complete federally required reviews of tenant income eligibility and rent rates or notify property owners of noncompliance it identified.

Specifically, our review of 153 inspection reports and property owner noncompliance notices for the 10 properties found that the Department:

- ▶ **Lacked evidence it verified tenants met low-income eligibility requirements and owners charged allowable rent rates for property owner files it reviewed**

Federal regulations require the Department to review the property owner's files for each inspected property to determine if the property owner verified that the tenant's income fell within low-income thresholds and that the owner charged allowable rental rates (see textbox, page 18, for information on determining tenant eligibility and allowable rental rates).¹⁵ However the Department lacked evidence it completed these verifications for 53 of the 153 (or 35%) files it inspected. For example, 46 of the 53 Department inspection reports contained incomplete or blank entries for determining tenant income, which is used to verify tenant low-income eligibility, including household income, the value of a tenant's assets, and other rental assistance the tenant received. Additionally, 6 of the 53 inspection reports did not indicate if the inspector reviewed the rent rate and if the rent was within the allowable range.¹⁶

- ▶ **Failed to promptly notify property owners of all file inspection deficiencies it identified that required correction**

As discussed previously (see page 15), federal regulations require the Department to promptly notify property owners of LIHTC program noncompliance, including for noncompliance related to tenant income eligibility and rent rates. However, the Department failed to promptly notify the owners for half of the properties we reviewed related to these issues and did not include all deficiencies in property owner noncompliance notices. Specifically, for 5 of the 10 properties we reviewed, the Department took more than 30 days to notify property owners of 37 deficiencies. Additionally, the Department did not include 3 deficiencies that required correction in its noncompliance notices sent to 2

¹⁵ 26 CFR 1.42-5(c).

¹⁶ The Department was not able to provide us an inspection report for 1 of the 153 files we reviewed.

of the 10 property owners.¹⁷ For example, the Department took up to 115 days after completing file inspections to notify 1 property owner of 25 file inspection deficiencies, such as missing documentation to support tenants' low-income eligibility and a miscalculation of a tenant's rent rate.

Property owners must determine tenant eligibility and allowable rental rates according to federal law

Federal law requires property owners to:

- Verify that tenants' annual incomes fall within certain income limits by reviewing documentation, such as tenants' paychecks and bank statements. HUD sets income limits annually based on the area's median income and the number of people living in the unit. For example, the annual area median income for a family of 4 in Phoenix as of May 2026 is \$112,400, and the income limit to qualify to live in low-income housing is 50% of the annual area median income—or \$56,200.¹
- Establish rents less than 30% of the HUD-established income limit for the unit.² For example, the maximum allowable rent rate for a 2-bedroom unit is 30% of the \$4,217 monthly income limit for a 3-person household in Phoenix—\$1,265 per month.

¹ The income limits also vary by property. Property owners must agree to set aside a minimum number of units on the property for households with incomes less than a set income limit—for example, 40% of units rented to households with incomes of 60% or less of area median income, or 20% of units rented to households with incomes of 50% or less of area median income.

² Allowable rent rates increase with the number of bedrooms in the unit. The rent rate for a studio unit would be calculated using the income limit for a 1-person household. For units with 1 or more bedrooms, the allowable rent rate would be calculated using the income limit for 1.5 people per bedroom.

Source: Auditor General staff review of 26 USC 42, IRS revenue rulings, HUD income limits, and the Department's website.

▶ Did not review the minimum number of property owner files for 1 of the 10 properties

In addition to inspecting a minimum number of low-income tenant units at each LIHTC property every 3 years as discussed in issue 1 (see pages 16 through 17), federal regulation also requires the Department to review a minimum number of property owner files for each property to assess compliance with low-income eligibility and allowable rent rate requirements.¹⁸ However, the Department did not review the minimum number of property owner files for 1 of the 10 properties, reviewing 16 files instead of the required 20 files for that property.

The Department's failure to review compliance with all requirements in property owner files and to notify/promptly notify property owners of deficiencies identified in file reviews could result in ineligible tenants being allowed to live in low-income housing units that should be rented to qualified low-income individuals who are in need of housing and/or property owners charging more or less rent than federal regulations allow.

¹⁷ Of the 2 property owner noncompliance notices that were missing 3 deficiencies, 1 was issued within 30 days after the inspection, and the other was issued 115 days after the inspection.

¹⁸ See footnote 14, page 16, for information on minimum inspection requirements.

Additionally, as discussed in issue 1 (see pages 16 through 17), by not documenting its review of property owners' compliance with all requirements or meeting minimum sample size requirements required by federal regulations, the Department increases the risk that it will award future tax credits to property owners that should be disqualified due to noncompliance.

Issue 3: Department did not report 7 LIHTC program violations to the IRS for a property we reviewed, which could prevent the IRS from taking action to address noncompliance, such as recapturing tax credits from property owners with uncorrected violations

Federal regulations require the Department to report certain property owner program noncompliance to the IRS, including deficiencies from property inspections and owner record reviews, such as health and safety violations.¹⁹ However, our review of the IRS noncompliance notices and property inspection reports for 1 of the 2 properties subject to this requirement found that the Department did not report 7 health and safety violations to the IRS.²⁰ For example, the Department did not report a bedroom window with sharp, broken glass; an inoperable range burner; and a broken kitchen sink.

Although these 7 unreported violations were later corrected by the property owner, if the Department had not ensured that the violations were corrected, failure to report them to the IRS as required could prevent the IRS from taking action to address the noncompliance, such as recapturing tax credits from noncompliant owners whose properties are not providing the intended benefits of the program, potentially resulting in a waste of public monies.²¹ Additionally, if the IRS recaptures federal tax credits from a property owner, the Arizona Department of Revenue is required to recapture State tax credits from the property owner; therefore, the Department could also prevent the Arizona Department of Revenue from recapturing State tax credits from noncompliant owners.²²

¹⁹ 26 CFR 1.42-5(e) requires the Department to report all noncompliance to the IRS, regardless of whether the noncompliance is corrected or uncorrected by the property owner. Within the report to the IRS, the Department must specify the correction status—whether the noncompliance was corrected or uncorrected within 90 days after the property owner was notified. The Department's responsibility for reporting noncompliance to the IRS begins when the property owner claims the tax credits and continues for the first 15 years after the property has been placed into service. Of the 10 properties we reviewed, only 2 properties had owners who had started to claim tax credits and were still within the first 15 years after being placed into service, during the time the inspection took place.

²⁰ The 7 health and safety violations we identified included both urgent and nonurgent violations and matched violations described within federal health and safety standards, violations the Department reported at the same property, and/or violations described within the Department's published list of commonly observed violations of federal health and safety standards.

²¹ The Department provided documentation, such as work orders or vendor invoices, demonstrating that 6 out of 7 of these unreported violations were later corrected by the property owner. For the 1 remaining unreported violation, the Department was unable to provide documentation but stated that the violation was corrected. Additionally, the Department reported that it was not aware when the IRS had last taken action to address property noncompliance, such as by auditing properties or recapturing credits. However, the Department reported that it would work with the IRS in such a situation. As we reported in our 2010 Department performance audit and sunset review, the Department had reported at that time that 2 properties were subject to IRS action in the past (see Arizona Auditor General report 10-05 *A Performance Audit and Sunset Review of the Arizona Department of Housing*).

²² The Arizona Department of Revenue reported that as of May 2026, no property owners had claimed State tax credits.

Department lacks adequate and documented policies and procedures, oversight processes, and training to effectively monitor LIHTC properties

Our review of the Department's policies and procedures and interviews with 5 Department LIHTC inspectors identified 3 primary factors that contributed to the Department's inadequate compliance monitoring and reporting outlined previously, as follows:²³

▶ **Department's policies and procedures lack requirements and guidance for key compliance monitoring and reporting steps**

Although the Department's policies and procedures include some guidance for some steps in its compliance monitoring and reporting process, such as assessing federally required health and safety standards during property inspections and verifying that property owners determined tenant low-income eligibility, they lack specific requirements or guidance for other key steps, which likely contributed to some of the deficiencies described previously.

For example, the Department's policies and procedures:

- Do not provide guidance or establish requirements explaining how Department inspectors should document onsite property inspections of federally required health and safety standards and tenant income and rent rate records in property owners' files, which likely contributed to the inspection reports we identified that lacked evidence that inspectors had assessed key requirements.²⁴ Conversely, recommended practices from the National State Auditors Association indicate that inspection documentation should demonstrate that inspectors reviewed compliance with all applicable laws or requirements. Additionally, although the Department has developed inspection report templates, its policies and procedures do not require Department inspectors to use them, nor do they include specific guidance on how to use the templates or what information should be included in the reports. For example, according to a Department inspector, because 1 of the report templates lacked clear instructions, inspectors completed the template with different information, and the template was difficult to understand when they were first hired. Additionally, 1 Department inspector relayed that, previously, they did not complete inspection report templates because it was not required, and they thought that a specific requirement would be helpful.
- Do not provide specific guidance on the violations or deficiencies to include or document in inspection reports and/or noncompliance notices for property owners, which likely contributed to the inconsistent noncompliance reporting we identified. For example, although Department policies require Department inspectors to notify property owners in writing if a property or file inspection identifies noncompliance with federal requirements or Department policies, inspectors we interviewed reported inconsistent interpretations of these requirements. Specifically, some inspectors reported they

²³ We interviewed 5 inspectors the Department employed as of April 2026. According to documentation the Department provided, the 5 inspectors were responsible for conducting housing unit and property owner file inspections at the 10 properties we reviewed.

²⁴ National State Auditors Association. (2004). *Carrying out a state regulatory program*. Retrieved 4/8/2026 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Carrying_Out_a_State_Regulatory_Program.pdf

documented and reported all health and safety violations to owners following the inspection, while others reported excluding deficiencies that were immediately corrected. Additionally, the policies and procedures do not include guidance for Department inspectors to ensure that all violations or deficiencies are addressed, such as determining when a reinspection of the property may be necessary.

- Do not establish a required time frame for notifying property owners of noncompliance following inspections, which likely contributed to the timeliness issues we identified. Specifically, although the Department's process includes immediate notification of any urgent health and safety violations and the Department's goal is to notify property owners of all noncompliance within 30 days, neither of these time frames is documented within the Department's policies and procedures, nor did inspectors consistently adhere to them. Furthermore, absent a documented time frame for notifying property owners, some inspectors we interviewed reported they were unaware of the 30-day goal.

▶ **Department lacks formal or documented supervisory review process**

The Department has not established formal or documented processes, including written policies, procedures, and/or guidance, for supervising Department inspectors responsible for the Department's LIHTC compliance monitoring and reporting. For example, the Department has not established processes or requirements for providing oversight of inspectors' onsite inspection activities or for monitoring and overseeing noncompliance notices inspectors send to property owners to ensure they include all health and safety violations and file inspection deficiencies identified during inspections. In contrast, most inspectors we interviewed recommended that Department supervisors shadow inspectors during onsite inspections and/or review the property owner noncompliance notices to provide feedback to inspectors and to correct any mistakes. During our audit, the Department began implementing some steps to enhance its supervisory review and oversight processes, including having a supervisor shadow inspectors during onsite inspections of LIHTC properties. However, the Department had not yet developed written policies, procedures, and/or guidance outlining these changes.

Additionally, although the Department reported that inspectors' supervisors are responsible for reviewing and signing the IRS noncompliance notices drafted by inspectors, it lacks written policies, procedures, and/or guidance for conducting these reviews, and we identified problems with some IRS notices that should have been identified by a supervisor. For example, supervisory review of IRS noncompliance notices for 1 LIHTC property we reviewed did not identify that notices lacked some federally required health and safety violations identified during inspections, such as a broken window with sharp, broken glass.

Finally, the Department did not provide us with any documentation showing that inspectors' immediate supervisors received specific training on reviewing or overseeing inspectors' work in preparation for these management roles.²⁵

²⁵ After we brought this issue to the Department's attention, it provided documentation indicating that supervisors received some training relevant to compliance monitoring and reporting. However, our review did not identify any training that addressed reviewing or overseeing inspectors' work, such as verifying the accuracy or completeness of IRS noncompliance reports or shadowing inspectors during onsite inspections.

► **Department has not established a standardized or formal training process for inspectors to help ensure that they consistently conduct, document, and report the results of inspections**

The Department reported that new compliance staff attend a 2-week orientation with management that includes training on administrative processes and regulatory standards followed by 6 months of field-based peer training from more experienced inspectors. However, the Department's reported process for training is not documented or formalized, leading to inspectors receiving inadequate or inconsistent training and contributing to the variety of problems noted throughout this finding. For example, some inspectors we interviewed reported that the Department's reliance on peer-to-peer training results in new inspectors receiving inconsistent training, given that the peer inspectors conducting the training have varying practices or knowledge. Additionally, most of the inspectors we spoke with reported that the training they received was inadequate and that they felt underprepared to perform the inspections on their own. Further, some inspectors reported that developing more comprehensive policies and procedures for inspections, as mentioned previously, would be useful for training new inspectors.

Recommendations to the Department

Complete inspections of LIHTC properties consistent with federal and State requirements, program guidance, and recommended practices, including:

1. Documenting inspections of all required health and safety standards and property owner record reviews.
2. Notifying property representatives of all urgent health and safety violations at the end of the inspection.
3. Notifying property owners of all inspection deficiencies promptly and in writing within 30 days of completing an inspection of a LIHTC property.
4. Reporting all required property noncompliance to the IRS, as applicable.

Update and/or develop and implement additional written policies, procedures, inspection report templates, and/or guidance outlining requirements and guidance for all key steps for inspecting LIHTC properties and conducting property owner record reviews, including:

5. Documenting inspections of all required health and safety standards and verification of low-income eligibility and allowable rent-rate requirements.
6. Notifying property representatives of urgent health and safety violations at the end of the inspection.
7. Notifying property owners of any identified noncompliance in writing, including a specific time frame for notifying owners after an inspection.

8. Ensuring all violations are corrected, including determining when a reinspection is needed.
9. Develop, document, and implement a standardized training program for Department inspectors, including soliciting feedback from inspectors to develop the documented training program. The documented training program should address all key requirements and standards related to LIHTC compliance monitoring and reporting, including those addressed in recommendations 1 through 8.
10. Develop and implement written policies and procedures for providing and documenting supervisory oversight of LIHTC property inspections and property owner record reviews to help ensure Department inspectors adhere to all compliance-monitoring requirements and expectations. Once these policies and procedures have been established, the Department should provide training on policies and procedures to Department supervisors.

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

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Questions and answers

Question 1: What key entities are involved in the development of LIHTC properties?

We identified 4 key entities involved in the development of LIHTC properties, including the IRS, the Department, private developers, and private investors (see Figure 2, page 30, for an overview of the key entities involved in the development of LIHTC properties).

Their primary responsibilities or roles include the following:

► **IRS is responsible for allocating federal low-income housing tax credits to states and receiving and reviewing states' reports of LIHTC property noncompliance**

The IRS is responsible for allocating 2 types of low-income housing tax credits to states, commonly referred to as 9% and 4% tax credits (see Table 2, page 26, for information about 9% and 4% tax credits and textbox, page 28, for an example of tax credit award calculation). The IRS annually allocates a limited dollar amount that each state can award for 9% tax credits based on each state's population. For calendar year 2026, the IRS allocated more than \$26 million in 9% tax credits to Arizona.¹ Although the IRS does not limit the dollar amount that states can award for 4% tax credits, 4% tax credits can only be awarded to developers that obtain tax-exempt bonds.² Additionally, the IRS is responsible for receiving and reviewing states' reports of LIHTC property noncompliance, which could result in the IRS recapturing tax credits that property owners or investors have claimed (see Finding 1, pages 11 through 23, for more information).

¹ The allocated amount is the amount of annual tax credits that can be awarded. Because the awarded tax credit can be claimed every year for 10 years, the total value of Arizona's calendar year 2026 allocation is \$260 million for the 10-year period.

² Statute authorizes industrial development authorities in the State, including the Arizona Industrial Development Authority, to issue tax-exempt bonds to finance certain types of projects, such as affordable rental housing and healthcare facilities. The interest paid on these bonds is tax exempt, which lowers costs for borrowers. The IRS sets the annual amount of tax-exempt bonds each state can award, and for calendar year 2026, Arizona's tax-exempt bond limit is approximately \$1 billion.

Table 2**IRS outlines different requirements for 4% and 9% low-income tax credits¹**

Requirement	Type of tax credit	
	4% tax credits	9% tax credits
Competitive/limited tax credit allocation	No	Yes
Calendar year 2026 annual tax credit allocation	N/A	\$26 million
Must be combined with tax-exempt bonds	Yes	No
Calendar year 2026 tax-exempt bond limit	\$1 billion	N/A

¹ Prior to the STC program sunset in December 2025, statute authorized the Department to annually award up to \$4 million in State tax credits to projects awarded federal tax credits. The annual \$4 million State tax credit limit was the combined total that the Department could award to projects that received 9% or 4% federal tax credits. Statute required the State tax credit amount awarded for a project to be equal to at least 50% of the amount of the federal tax credit that a developer can claim in each taxable year during the 10-year federal credit period.

Source: Auditor General staff review of A.R.S. §41-3954, federal law, and Keightley, M. P. (2025). An introduction to the Low-Income Housing Tax Credit. *Congressional Research Service*. Retrieved 5/28/2026 from <https://www.congress.gov/crs-product/RS22389>

► **Department is responsible for awarding low-income housing tax credits, monitoring properties' development and ongoing compliance with LIHTC program requirements, and reporting noncompliance to property owners and the IRS**

The Department is responsible for administering the State's LIHTC and STC programs (see textbox, page 29, for an example of the Department's role, Table 3, page 27, for a summary of tax credit awards the Department made in calendar years 2020 through 2025, and Appendix A for information on each of the federal and State 9% and 4% tax credit awards the Department made in calendar years 2020 through 2025).³

As part of its responsibility, the Department is required to:

- Review developers' applications and make award decisions according to eligibility requirements and scoring criteria outlined in the QAP (see questions 2 and 3, pages 31 through 34, for more information about the QAP and the Department's review of applications, respectively).
- Ensure the properties are developed consistent with the developers' approved applications (see question 4, page 34, for more information).
- Monitor federal and State tax credit properties' compliance with program requirements every 3 years for 30 years after they are placed in service, and report noncompliance to property owners and the IRS (see Finding 1, pages 11 through 23, for more information).

³ A.R.S. §41-3954 established the same LIHTC program requirements for properties allocated tax credits through the STC program.

Table 3**The Department awarded more than \$4.3 billion in federal and State tax credits**

Calendar years 2020 through 2025

Year	Number of projects	Low-income units	Project development costs ¹	Annual STC awards ²	Total STC awards ³ (claimed for a 10-year credit period)	Annual LIHTC awards	Total LIHTC awards ³ (claimed for a 10-year credit period)
2020	28	3,048	\$726,303,961	\$0	\$0	\$35,582,024	\$355,820,240
2021 ⁴	16	1,522	428,566,952	0	0	27,867,562	278,675,620
2022 ⁵	47	6,418	2,329,862,310	6,000,000	60,000,000	122,163,292	1,221,632,920
2023	34	4,572	1,807,215,672	3,875,000	38,750,000	97,988,722	979,887,220
2024	23	3,456	1,386,513,750	2,943,050	29,430,500	76,084,295	760,842,950
2025 ⁶	21	2,533	1,103,685,282	1,000,000	10,000,000	59,141,471	591,414,710
Total	169	21,549	\$7,782,147,927	\$13,818,050	\$138,180,500	\$418,827,366	\$4,188,273,660

¹ The development costs for a project are outlined in the developer's application and can include construction costs, such as building materials and labor, and architecture and engineering fees.

² In 2021, A.R.S. §41-3954 authorized the STC program, enabling the Department to annually award up to \$4 million in State tax credits to projects awarded federal tax credits and established its sunset date on December 31, 2025. The State tax credit awards are reflected in the table based on the calendar year that each applicable project received a federal tax credit award. The Department awarded State tax credits to 2 projects that are not included in the table because, as of June 2026, the federal tax credit amount and development costs for these 2 projects were still being determined.

³ The reported total tax credit awards are the total amount of tax credits that can be claimed for the 10-year credit period once the property is placed in service.

⁴ According to the Department, multiple factors contributed to the decrease in projects awarded tax credits in calendar year 2021, including the impacts of COVID-19 on the supply chain and cost of construction materials.

⁵ According to the Department, multiple factors contributed to the increase in tax credit awards in calendar year 2022, including the new State tax credit program and the Department receiving a \$60 million appropriation for the State Housing Trust Fund, which the Department reported allowed it to make additional funding available to LIHTC property developers resulting in an increase in LIHTC applications that were financially feasible.

⁶ Following calendar year 2022, the number of projects awarded tax credits began to decrease as inflation and labor shortages continued to increase following COVID-19. Additionally, the appropriations received for the State Housing Trust Fund decreased from \$60 million in fiscal year 2023 and \$150 million in fiscal year 2024, to \$15 million in fiscal year 2025, resulting in less funding available for State Housing Trust Fund awards.

Source: Auditor General staff review of Department-published data on LIHTC and STC properties awarded tax credits from calendar years 2020 through 2025.

► **Developers are responsible for applying for tax credits, developing low-income housing properties, and maintaining compliance with LIHTC program requirements for 30 years**

Developers apply for tax credits to help fund the development of low-income housing properties, which can include the acquisition and rehabilitation of a housing property or construction of a new housing property. In exchange for tax credits, developers are required to build low-income housing properties as described in the approved applications, hold a portion of each applicable property's rental units for low-income households, and charge affordable rents to qualified tenants in those units for a specified period of time—usually 30 years.^{4,5} Developers can either claim the tax credits to offset their federal income tax liabilities or sell them to investors to obtain funding to help pay for acquisition, rehabilitation, construction, and other development costs of the property.⁶ By obtaining tax credits to help fund the development of the property, developers can reduce the amount of debt incurred through loans or other financing resources, making it possible for developers to charge lower, more affordable rent. Once the property is placed in service, the developer must continue to comply with program requirements for 30 years, including maintaining the housing units to ensure they comply with federal health and safety standards (see textbox, page 29, for an example of a developer's role).

Example of a tax credit award calculation

To calculate a tax credit award amount:

► **Determine the eligible development costs for the property:¹**

Example property's development costs are \$1 million.

► **Multiply the eligible development costs by the applicable tax credit percentage, 9% or 4%, to get the annual tax credit amount:²**

Example property is awarded a 9% tax credit; therefore, the development costs for the property are multiplied by 9%, equaling \$90,000.

► **Multiply the annual tax credit amount by 10 to get the total amount of tax credits that can be claimed for the 10-year credit period:**

The example property's total tax credit award for the 10-year credit period is \$900,000.

¹ Eligible development costs can include costs associated with acquisition, construction, and rehabilitation, such as building materials and labor as well as architecture and engineering fees.

² The actual percentages used to calculate tax credit awards are not exactly 9% and 4%. The United States Treasury uses a formula to determine the percentage on a monthly basis, with 9% and 4% being the minimum.

Source: Auditor General staff review and summary of Keightley, M. P., 2025.

⁴ 26 USC 42(g)(1) and (i)(1).

⁵ "Affordable" means that the rent is no more than 30% of the income limitation for the unit, which is based on the median income for the area.

⁶ Developers that received State tax credits can similarly claim the tax credits to offset their State income tax liabilities. Tax credits cannot be claimed until the low-income housing property is placed in service.

► **Investors buy tax credits to reduce their tax liability and are responsible for maintaining compliance with LIHTC program requirements**

As noted previously, investors can purchase tax credits from developers. According to the Congressional Research Service, for-profit financial institutions and banks, such as Advantage Capital and KeyBank Community Development Lending and Investment, are the primary investors in LIHTC properties.⁷ Investors can claim the tax credits to offset their tax liability for a period of 10 years. When a developer sells tax credits to an investor, both parties then have an ownership interest in the property and are jointly responsible for maintaining compliance with LIHTC program requirements (see textbox for an example of an investor's role).

Example of key entities involved in the development of an LIHTC property

In calendar year 2020, the Department received an application from a private developer for federal low-income housing tax credits to help fund the acquisition and rehabilitation of Kachina Gardens—an apartment complex in Navajo County originally built in 1968. In its application, the developer proposed acquiring Kachina Gardens and making various renovations, such as adding new kitchen cabinets, appliances, flooring, and light fixtures, as well as constructing a new playground and community business center. The Department awarded the developer \$428,829 in annual federal tax credits in March 2021, which equate to a total of more than \$4 million in federal tax credits over 10 years.

In March 2021, the developer sold the tax credits to a private investor, the Royal Bank of Canada, to obtain investment capital for the acquisition and rehabilitation of Kachina Gardens. After the renovations were complete, the developer placed Kachina Gardens in service in December 2021, providing 51 units for low-income households.¹ With Kachina Gardens placed in service, the Royal Bank of Canada was able to claim the first of 10-years of tax credits starting in 2021.

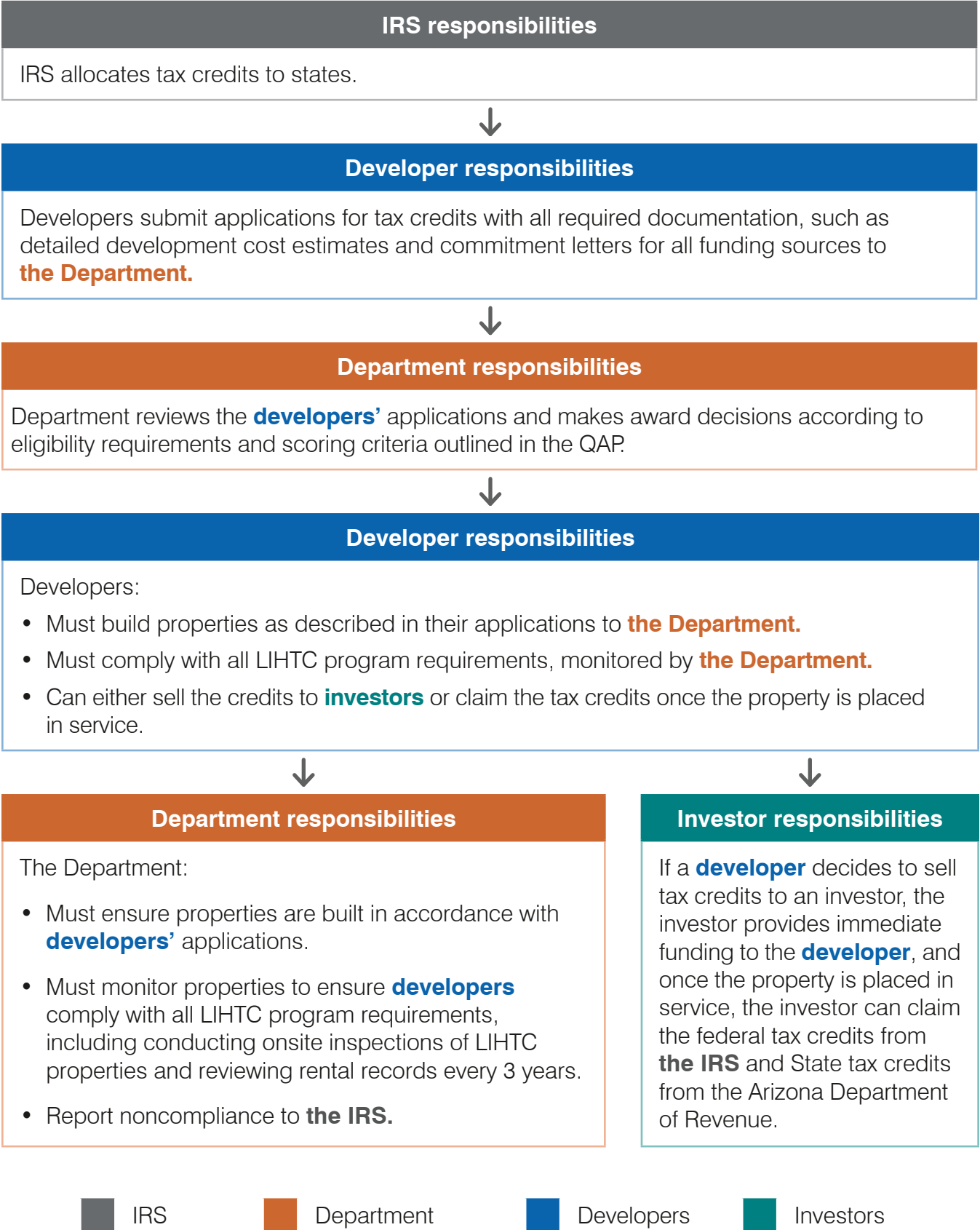
The Department conducted compliance-monitoring inspections of Kachina Gardens in November 2022 and August 2025 (see Finding 1, pages 11 through 23, for more information on compliance-monitoring inspections). During its August 2025 compliance-monitoring inspection of Kachina Gardens, the Department inspected tenant income eligibility and rent records and health and safety standards for 11 units. According to the Department's inspection reports, it did not identify any instances of noncompliance related to tenant income eligibility and rent rates, but it did identify health and safety standards violations for all 11 units, including ceilings with water damage, missing or broken smoke alarms, and/or damaged electrical outlets. In December 2025, the Department reported the identified health and safety violations to the IRS. The Department is required to continue conducting compliance-monitoring inspections every 3 years through December 2050 when the 30-year compliance period ends.

¹ During renovation from March 2021 through December 2021, Kachina Gardens tenants were temporarily relocated.

Source: Auditor General staff review and summary of Department-provided application materials for Kachina Gardens.

⁷ Keightley, M. P., 2025.

Figure 2
Key entities involved in the development of LIHTC properties



Source: Auditor General staff review and summary of Keightley, M. P., 2025 and the Department's 2026-2027 QAP.

Question 2: What is the Qualified Allocation Plan (QAP), and who provides input into its development?

The Department develops the QAP every 2 years to establish the requirements and framework to award federal low-income housing tax credits for developing or rehabilitating affordable rental housing in Arizona.⁸ Specifically, the QAP outlines the Department's goals and priorities, eligibility requirements, scoring criteria, and processes for awarding tax credits to LIHTC projects. For example, in the Department's calendar years 2026–2027 QAP, the Department outlines various overarching goals and priorities, such as preserving long-term affordability of housing in the State, selecting “shovel-ready” housing projects, and maximizing the number of affordable housing units added across the State.⁹ Additionally, the Department's QAP prioritizes awarding tax credits to projects that target specific populations, including families, seniors, persons with disabilities, veterans, and youth exiting foster care (see question 3 for additional information about requirements established in the QAP).

In developing the 2026–2027 QAP, the Department solicited input from various stakeholders, including nonprofit organizations, local governments, developers, and others through multiple focus group discussions, question-and-answer sessions, and public hearings. After the public hearing period, Governor Hobbs approved and signed the QAP in December 2025.

Question 3: What are the Department's processes for reviewing LIHTC and STC applications and making award decisions?

The Department's processes and procedures for reviewing LIHTC and STC applications and making award decisions include:¹⁰

► Determining if applications meet eligibility requirements outlined in the QAP

Applicants must submit and the Department is required to review applications to ensure they meet the eligibility requirements outlined in the QAP.

For example:

- The developer must have prior experience developing at least 1 LIHTC property and not have any operating LIHTC properties that are out of compliance with State or federal requirements.¹¹
- Each application must include a letter from the relevant local government, such as the city or county, consenting to the LIHTC property's development.

⁸ 26 USC 42 requires states participating in the LIHTC program to develop a QAP to award federal low-income housing tax credits.

⁹ The Department's finalized 2026-2027 QAP can be accessed at the following link: https://housing.az.gov/sites/default/files/2025-12/2026-2027_QualifiedAllocationPlan.pdf

¹⁰ Prior to the STC program sunset in December 2025, statute required the Department to award State tax credits using the same process it outlined in its QAP for awarding federal tax credits. Although the STC program has sunset, the Department's 2026-2027 QAP was developed for administering both LIHTC and STC programs.

¹¹ As discussed in Finding 1, pages 11 through 23, the Department is required to monitor federal and State tax credit properties' compliance with program requirements, report noncompliance to property owners and the IRS, and determine if the noncompliance is corrected. Although not part of our formal review, we saw some evidence that the Department received work orders, photos, invoices, and other documents from property owners demonstrating that noncompliant items had been corrected. According to the Department, in the last 5 years, it received 1 application from a developer that had uncorrected noncompliance, but the developer was able to address the noncompliance and meet this eligibility requirement.

- The applicant must provide a market study demonstrating that there is a demand for the proposed property.¹²
- For rehabilitation projects, the application must include a capital-needs assessment conducted by an independent architect or engineer that assesses the property's current overall physical condition, including identifying any significant deferred building maintenance that affects the property's use and its structural or mechanical integrity.

► **Scoring applications that met eligibility requirements using criteria outlined in the QAP**

The QAP outlines various scoring criteria that the Department must use for awarding tax credits, such as awarding additional points for applications that:¹³

- Have the greatest number of housing units compared to other applications.
- Commit to serving families or the elderly.
- Commit to renting a portion of the proposed units to households receiving federal rental assistance (see Introduction, pages 4 through 5, for information on Section 8 rental assistance programs).
- Will be located in an area designated by HUD as hard to develop or a qualified census tract and/or near key amenities for tenants, including grocery stores, medical facilities, public transportation, and schools.¹⁴
- Have funding commitments that will supplement the payment of development costs from charitable organizations or other government funding sources, such as Community Development Block Grant monies.

► **Assessing the financial feasibility of the proposed LIHTC properties using financial requirements outlined in the QAP**

The Department reviews financial feasibility for applications that had the highest score in descending order until it reaches the allocation limit for the applicable year.¹⁵ The QAP requires the Department to assess various factors to determine the financial feasibility of proposed LIHTC properties. For example, the Department must assess whether the development costs outlined in the application are appropriate based on comparisons

¹² A Department-approved market study analyst must conduct the market study.

¹³ According to the QAP, the Department will not score all applications, applicants are required to self-score their applications, and the Department reviews applications in descending order based on these self-scores and the amount of tax credits available. Additionally, consistent with the QAP, the Department does not score applications for 4% LIHTC but awards 4% LIHTC to eligible applicants on a first-come, first-serve basis.

¹⁴ HUD designates areas with high land, construction, and utility costs relative to the area median income as difficult development areas and areas with 50% of households with incomes below 60% of the area median income or a poverty rate of 25% or more as qualified census tracts.

¹⁵ The Department reviews applications that had the highest score for each set-aside outlined in the QAP. The Department's QAP outlines set-asides, which means the Department will award a portion of the tax credits to applicants proposing to develop properties with certain characteristics, such as applicants proposing to rehabilitate existing housing or develop housing in rural counties. See question 10, pages 46 through 47, for more information on the set-asides outlined in the Department's QAP.

with other applications for similar projects and recently developed LIHTC properties. Additionally, the Department must assess whether the property will generate enough revenue to cover the property's development and operating costs by reviewing detailed development and funding estimates and expected rental revenues and operational expenses that are provided as part of the applications.

► **Making final award decisions**

According to the Department's policies and procedures, Department management and relevant staff are required to prepare a list of approved applications based on application scores and financial feasibility assessments.¹⁶ This list of approved applications is provided to the Department's director, and the Department is required to send letters to applicants letting them know whether or not the Department awarded them tax credits.

Example of the Department's application review and award for a LIHTC property

In calendar year 2024, the Department received an application from a nonprofit developer, Chicanos Por La Causa, for federal tax credits to help fund the rehabilitation of Casa Del Pueblo Senior Apartments—a senior independent-living community in Pima County. In its application, the developer proposed acquiring the property and making various renovations, including adding new kitchen and bathroom cabinets, appliances, and flooring, as well as installing accessibility features, such as grab bars in restrooms. Additionally, the developer proposed updating life and safety systems, including fire alarms and emergency call buttons in tenant bedrooms and restrooms.

Consistent with the QAP, the Department required the developer to submit an application with various documentation demonstrating the application met threshold eligibility requirements, applicable scoring criteria, and financial feasibility requirements.

For example, the application included:

- Threshold eligibility documentation, such as:
 - Property information for the 10 LIHTC properties that Chicanos Por La Causa had previously placed in service.
 - A letter from the relevant local government, the City of Tucson, consenting to the development of the Casa Del Pueblo Senior Apartments property.
 - A capital needs assessment that identified critical repairs needed to correct noncompliance with some federal accessibility requirements, such as the need to install required grab bars in restrooms and install automatic door openers or reconfigure kitchens to provide the minimum required floor space for entryways.

¹⁶ The Department reported that it is not aware of any LIHTC/STC property that entered foreclosure or a project that received a tax credit award that defaulted or failed to develop the approved project.

Example of the Department's application review and award for a LIHTC property continued

- ▶ Applicable scoring criteria documentation, such as:
 - A map demonstrating that Casa Del Pueblo Senior Apartments is within a HUD-designated qualified census tract.
 - A notice from HUD acknowledging the intent for the property to enter a 20-year contract to provide project based rental assistance (see Introduction, page 4, for information on project-based rental assistance).
- ▶ Financial feasibility documentation, such as:
 - An appraisal prepared by an independent party demonstrating that the application includes no more than the lesser of the appraised value or purchase price for the property to be acquired.
 - Commitment letters for each funding source, including a letter from the City of Tucson committing to providing federal grant monies.
 - Records of historic rental rates and operating costs for the Casa Del Pueblo Senior Apartments property.

In calendar year 2024, the Department awarded the developer more than \$13 million in federal tax credits for a 10-year period. The developer anticipates completing renovations and placing Casa Del Pueblo Senior Apartments in service in calendar year 2027, providing 96 units for low-income individuals age 62 and over.

Source: Auditor General staff review and summary of Department-provided application materials for Casa Del Pueblo Senior Apartments, Department policies and procedures, and Department's 2026-2027 QAP.

Question 4: How does the Department ensure developers produce the number of housing units approved in their applications?

The Department has implemented various processes to help ensure developers produce the number of housing units they committed to in their Department-approved tax credit applications, such as:

- ▶ Requiring developers to request and receive approval from the Department prior to making any material changes to a project from what was specified in the approved application, such as changes to the number and square footage of units. According to the QAP, the developer must submit a written request to the Department to obtain approval for a material change and explain why the change is necessary. If the change would result in a project not meeting eligibility requirements or would lower the points awarded to the approved application, the Department is required to deny the change, according to the QAP.

Our review of Department and HUD data for 68 LIHTC properties with a total of 6,711 low-income housing units that were placed in service in calendar years 2020 through

2024 identified 2 properties that had fewer units placed into service than what was listed in their Department-approved applications.^{17,18} For these 2 properties, the developers had submitted written requests to the Department with explanations of the necessary changes in the number of units, and the Department approved the requested changes for the projects consistent with the QAP. Specifically, in calendar year 2021, the Department received material change requests from 2 developers requesting to reduce the number of units because of the significant increase in construction and other development costs following COVID-19 that resulted in the need to adjust the project scope to ensure the projects' financial feasibility.¹⁹

- ▶ Conducting an inspection of each property by the end of the second calendar year after it is placed into service to ensure the property aligns with the approved application, as required by federal regulation.²⁰ According to the Department's policies and procedures, the developer cannot claim tax credits until the Department has inspected the property and confirmed it aligns with the approved application.

Question 5: What factors impact the cost efficiency of developing federal and State low-income housing tax credit properties?

Research has found that the overall structure for developing LIHTC properties can impose some barriers to these properties' cost efficiency, such as higher costs associated with administration, financing, and construction in comparison to market-rate properties.

For example:

- ▶ The increased administrative costs associated with LIHTC properties result, in part, from developers' need to use multiple sources of funding to support the property's development, which results in higher administrative costs and can result in additional regulations and requirements associated with other government funding sources.²¹
- ▶ LIHTC projects include the developer's compensation in the form of a fee included in the property development costs. In contrast, market-rate developers are compensated through the development's rental or sale.²²

¹⁷ To assess whether developers had produced the number of housing units that the Department awarded tax credits for, we compared the number of units the Department reported in its tax credit award data to HUD's data on the number of LIHTC units placed in service. We reviewed the number of low-income housing units for all 68 properties in HUD's data that were placed in service from 2020 through 2024 and the number of low-income housing units for the corresponding properties in the Department's data.

¹⁸ At the time of our review, HUD's data on LIHTC properties included properties placed in service up through calendar year 2024. Although 2 properties that had been awarded State tax credits were placed in service in 2024, the developer/investor had not started claiming federal tax credits, and therefore, the 2 properties were not included in HUD's data.

¹⁹ The developer of 1 of the projects requested to reduce the number of units from 80 to 64, and the developer of the other project requested to reduce the number of units from 99 to 86.

²⁰ 26 CFR 1.42-5(c).

²¹ Hornung, D. (2025). States can ensure new low-income housing resources get more affordable housing built. *Urban Institute*. Retrieved 7/16/2026 from https://www.urban.org/sites/default/files/2025-07/States_Can_Ensure_New_Low-Income_Housing_Resources_Get_More_Affordable_Housing_Built.pdf; Kneebone, E., & Reid, C. (2021). The complexity of financing Low-Income Housing Tax Credit housing in the United States. *Terner Center for Housing Innovation*. Retrieved 8/4/2026 from <https://ternercenter.berkeley.edu/wp-content/uploads/2021/04/LIHTC-Complexity-Final.pdf>; Stamm, E & LaJoie, T. (2020). An overview of the Low-Income Housing Tax Credit (LIHTC). *Tax Foundation*. Retrieved 7/16/2024 from <https://files.taxfoundation.org/20200810100355/An-Overview-of-the-Low-Income-Housing-Tax-Credit.pdf>

²² Kneebone & Reid, 2021.

- ▶ According to research, LIHTC project developers receive tax credits after the low-income housing property has been developed and placed in service, and research found that developers typically enter contracts with investors to provide up-front financing in exchange for the anticipated tax credits; however, doing so can result in increased development costs.²³ For example, these contracts are usually structured through an intermediary and can be subject to legal review, both of which can incur additional fees. Additionally, these exchanges of tax credits often do not provide the developer with the full amount of financing needed to develop the property, and each additional layer of financing adds to eligible development costs because additional financing can result in more requirements, increased staff time for coordination and management, and increases in the time needed to develop the projects.
- ▶ LIHTC properties tend to have higher construction costs than average market-rate properties, in part, because they are subject to additional and/or more stringent requirements for developing these properties, such as stricter environmental standards and labor standards related to required wages and benefits for construction workers that are not required for market-rate projects.²⁴

Question 6: Does the Department's QAP include recommended practices for optimizing use of federal and State low-income tax credits?

Our review of the Department's 2026–2027 QAP found that it was largely consistent with recommended practices to optimize low-income housing tax credits, including incentivizing applicants to use tax credits more efficiently and prioritizing the State's specific housing needs.^{25,26}

Specifically, the Department's 2026–2027 QAP included mechanisms to:

- ▶ Impose fee limits for professionals working on the LIHTC project's development. For example, the Department's QAP imposed fee limits for developers, contractors, architects, and engineers working on the LIHTC properties' development.
- ▶ Reduce financing costs, including encouraging utilizing below-market loans. For example, the Department's QAP awards more points to applications for projects that will obtain loans with below-market rates from sources including local government housing

²³ Goetz, E., & Turvey, M. (2024). The relative inefficiency of the Low-Income Housing Tax Credit in Minnesota. *Center for Urban and Regional Affairs, University of Minnesota*. Retrieved 7/16/2026 from <https://www.cura.umn.edu/sites/cura.umn.edu/files/2024-03/lihtc-memo.pdf>; Turner Center for Housing Innovation. (2024). Low-Income Housing Tax Credit construction costs: An analysis of prevailing wages. *UC Berkeley*. Retrieved 8/4/2026 from <https://turnercenter.berkeley.edu/wp-content/uploads/2024/08/Low-Income-Housing-Tax-Credit-Construction-Costs-An-Analysis-of-Prevailing-Wages-August-2024.pdf>

²⁴ Kneebone & Reid 2021; Goetz & Turvey, 2024; Turner Center for Housing Innovation, 2024.

²⁵ Our review identified recommended practices that were included in the Department's 2026-2027 QAP. We did not assess the Department's implementation of these recommended practices.

²⁶ National Council of State Housing Agencies. (2023). *Recommended practices in housing credit administration*. Retrieved 7/13/2026 from <https://www.ncsha.org/wp-content/uploads/2018/04/NCSHA-Recommended-Practices-in-Housing-Credit-Administration-October-2023-FINAL.pdf>; U.S. Government Accountability Office (U.S. GAO). (2018). *Low-income housing tax credit: Improved data and oversight would strengthen cost assessment and fraud risk management*. Retrieved 7/16/2026 from <https://www.gao.gov/products/gao-18-637>; Hornung, 2025.; U.S. Department of the Treasury (2024). *Housing crisis in focus: LIHTC best practices to discourage qualified contracts and keep housing affordable for longer*. Retrieved 7/13/2026 from <https://home.treasury.gov/news/featured-stories/housing-crisis-in-focus-lihtc-best-practices-to-discourage-qualified-contracts-and-keep-housing-affordable-for-longer>

programs, charitable organizations, or the Federal Home Loan Bank Affordable Housing program. Additionally, the Department's QAP awards more points to applications that obtain commitments from local governments to waive impact, utility, or other development fees of at least \$100,000 for projects located in metropolitan areas and \$50,000 in rural/tribal areas.

- ▶ Limit development costs. For example, according to the Department's QAP, the Department will review development budgets for all LIHTC applications and require an explanation of costs for applicants that have unusually high development costs. Additionally, an applicant's inability to explain development costs can result in disqualification from receiving tax credit awards.
- ▶ Increase the number of rental units created or rehabilitated with LIHTC resources. For example, according to the Department's QAP, for any applications scoring the same number of points, the Department will first award tax credits to the applicant(s) with the higher number of total LIHTC units.

Additionally, a 2018 United States Governmental Accountability Office (U.S. GAO) report identified a potential fraud risk in the LIHTC program related to development and contractor costs, noting that some developers and contractors in Florida had inflated costs to obtain excess program resources for personal financial gain.²⁷ Although federal regulations require LIHTC-allocating agencies to obtain a schedule of project costs, the U.S. GAO indicated that requiring additional detailed information related to specific contractor costs can help deter or detect misrepresentation of costs and address the risk of fraud.²⁸ Our review of the Department's 2026–2027 post-award compliance manual and underwriting documentation found that the Department requires additional detailed information for cost certifications that includes costs for specific line items, consistent with recommended practices. For example, the Department requires developers' cost certifications to include costs for specific construction materials, such as the cost of roofing materials, drywall, and windows, as well as any fees for professional services including contractor and developer fees.

²⁷ U.S. GAO, 2018.

²⁸ 6 CFR 1.42-17(a)(5).

Question 7: What was the average amount of federal and State tax credits the Department awarded and the average development costs per housing unit in calendar years 2020 through 2025?

The Department awarded an average of approximately \$201,000 in tax credits per low-income housing unit for all projects that received any federal and State tax credits in calendar years 2020 through 2025.^{29,30} During that time period, the average amount of federal and State tax credits awarded per low-income housing unit substantially increased, as did the per unit development costs.

For example:

- ▶ As shown in Figure 3, page 39, the annual average amount of 9% tax credits the Department awarded per low-income housing unit increased from approximately \$213,000 in calendar year 2020 to more than \$361,000 in calendar year 2025, an increase of nearly 70%. In calendar years 2022 through 2025, the annual average amount of 9% tax credits awarded per low-income housing unit includes the 7 projects that received both federal and State 9% tax credits. The annual average amount of State 9% tax credits the Department awarded per low-income housing unit increased from nearly \$164,000 in calendar year 2022 to more than \$196,000 in calendar year 2024; however, in calendar year 2025 the average amount awarded decreased to approximately \$156,000.
- ▶ As shown in Figure 4, page 39, the annual average amount of federal and State 4% tax credits awarded per low-income housing unit increased from approximately \$72,000 in calendar year 2020 to more than \$199,000 in calendar year 2025, an increase of more than 175%. In calendar years 2022 through 2024, the annual average amount of 4% tax credits awarded per low-income housing unit includes the 7 projects that received both federal and State 4% tax credits.³¹ The annual average amount of State 4% tax credits the Department awarded per low-income housing unit increased from approximately \$67,000 in calendar year 2022 to more than \$83,000 in calendar year 2024.

Similar to the increase in the average amount of tax credits awarded per unit, average development costs per unit increased from approximately \$271,000 in calendar year 2020 to \$396,000 in calendar year 2025 for 9% LIHTC properties, including those that received State tax credits, and from approximately \$223,000 in calendar year 2020 to \$448,000 in calendar year 2025 for 4% LIHTC properties. According to the Department, the increase in the amount of federal and State tax credits awarded per unit were driven primarily by increasing development costs and inflation (see Table 3, page 27, for more information on the changes in tax credit award amounts and development costs in calendar years 2020 through 2025).

²⁹ The amount of tax credits reported is the total amount of tax credits that can be claimed for the 10-year period. The average tax credits and total cost for developing a low-income housing is for projects awarded tax credits from calendar years 2020 through 2025.

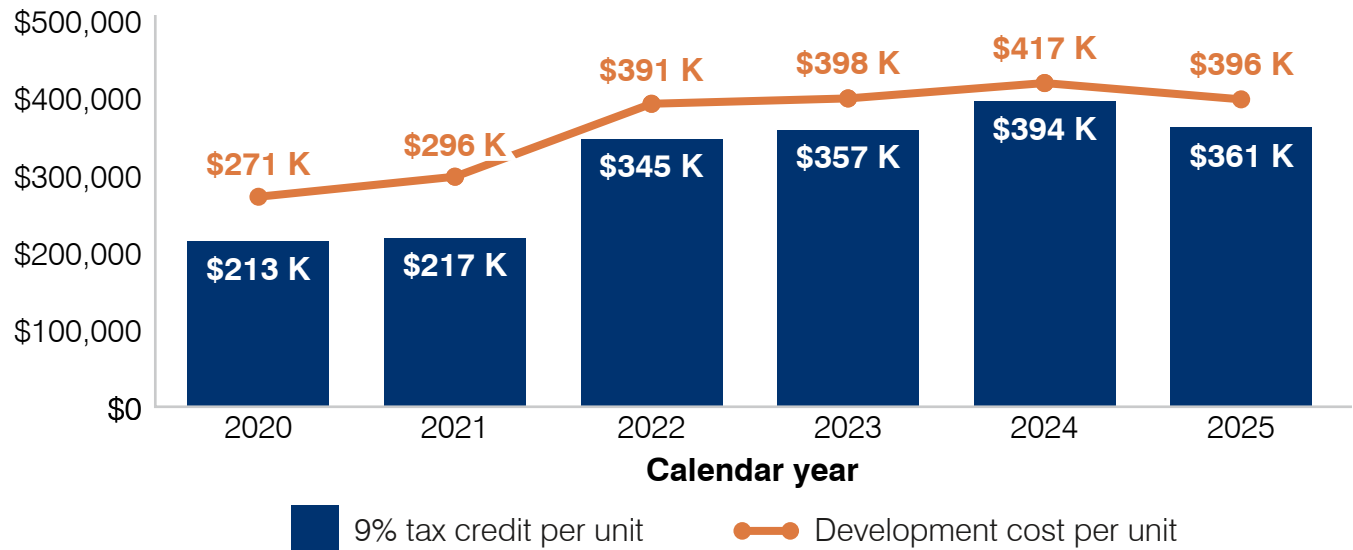
³⁰ The amount of tax credits per low-income housing unit was calculated by totaling the amount of federal and State tax credits awarded for 9% and 4% LIHTC and STC properties each year for calendar years 2020 through 2025, then dividing that amount by the number of LIHTC and STC units in the corresponding properties.

³¹ The Department reported that in fiscal years 2025 and 2026, it awarded State 4% tax credits to 2 projects, but as of June 2026, the federal 4% tax credit amount and development costs for these 2 projects were still being determined; therefore, we did not include these 2 projects in our analysis.

Figure 3

The average total amount of federal and State 9% tax credits awarded and development costs per low-income housing unit has increased since 2020¹

Calendar years 2020 through 2025



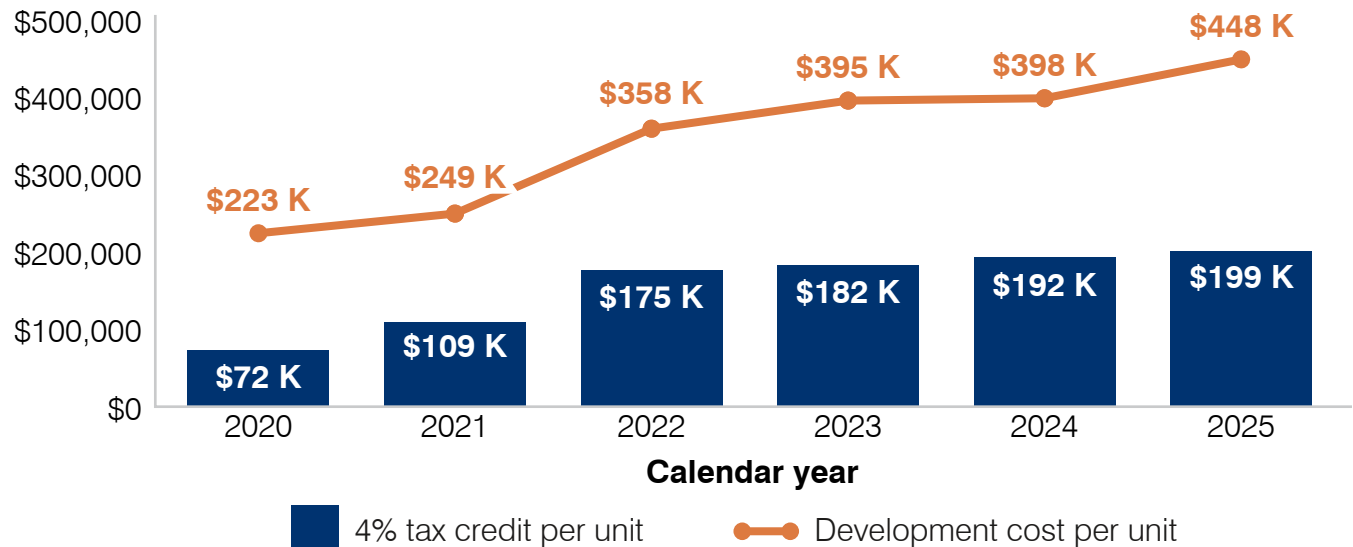
¹ The reported average amount of tax credit per unit is the total amount of tax credits that can be claimed for a 10-year period.

Source: Auditor General staff analysis of Department published data on LIHTC and STC properties awarded tax credits from calendar years 2020 through 2025.

Figure 4

The average total amount of federal and State 4% tax credits awarded and development costs per low-income housing unit has increased since 2020¹

Calendar years 2020 through 2025



¹ The reported average amount of tax credit per unit is the total amount of tax credits that can be claimed for a 10-year period.

Source: Auditor General staff analysis of Department published data on LIHTC and STC properties awarded tax credits from calendar years 2020 through 2025.

Question 8: What are the benefits of Arizona’s LIHTC and STC housing properties, including the impact on the housing market?

Our review of research on the housing market and analysis of affordable rental housing supply in Arizona found there is a shortage of affordable rental housing for low-income households in Arizona, and LIHTC and STC properties provide needed affordable housing and other direct and indirect benefits.³²

Specifically, research found that in 2023, Arizona had a shortage of more than 198,000 homes for low-income households.³³

Additionally, in 2023, 54% of Arizona renters were cost burdened by housing expenses, an increase of 8% from 2019 (see textbox for information on cost burden).³⁴ According to the Congressional Research Service, the

LIHTC program is the federal government’s primary policy tool for promoting the development of affordable rental housing for low-income households.³⁵ From calendar years 2020 through 2025, the Department awarded federal and State tax credits for the development of 21,549 low-income housing units. Our analysis of Department and Census Bureau published data and current research found that the Department has generally awarded tax credits to support development in areas lacking affordable housing and that LIHTC and STC properties can have positive impacts on the housing market and on the economy.

Our review’s findings are as follows:

► Department generally awarded tax credits to develop LIHTC and STC properties in areas lacking affordable rental housing

Our analysis of the Department’s LIHTC and STC awards and data on Arizona’s affordable rental housing supply from 2010 through 2024 found the Department generally awarded tax credits to support LIHTC and STC properties’ development in zip codes with a lack of affordable rental housing. To analyze affordable rental housing supply, we used HUD’s criteria that a household’s housing costs not exceed 30% of gross income, and determined lack of affordable rental housing by identifying if the majority (more than half) of all rental units in the zip code exceeded that 30% of household income threshold.

Key term

Cost burden: HUD considers housing to be affordable if it costs no more than 30% of household income. Households that pay more are considered to be cost burdened. According to research, households that are cost burdened are more likely to experience other types of economic hardship and are at risk of adverse health outcomes.

Source: Auditor General staff review and summary of ARCHES, 2025.

³² Joint Center for Housing Studies. (2024). The state of the nation’s housing—2024. *Harvard University*. Retrieved 7/16/2026 from https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2024.pdf; Wang, K., & Immergluck, D. (2019). Housing vacancy and urban growth: Explaining changes in long-term vacancy after the US foreclosure crisis. *Journal of Housing and the Built Environment*, 34(2): 511-532; McClure, K. (2019). The allocation of rental assistance resources: The paradox of high housing costs and high vacancy rates. *International Journal of Housing Policy*, 19(1): 69–94. Retrieved 7/19/2026 from <https://www.tandfonline.com/doi/full/10.1080/19491247.2017.1362756>

³³ Arizona Research Center for Housing Equity and Sustainability (ARCHES). (2025). *State of housing in Arizona*. Retrieved 6/1/2026 from https://issuu.com/asuwattscollge/docs/arches_-_2025_state_of_housing_in_arizona_report

³⁴ ARCHES, 2025.

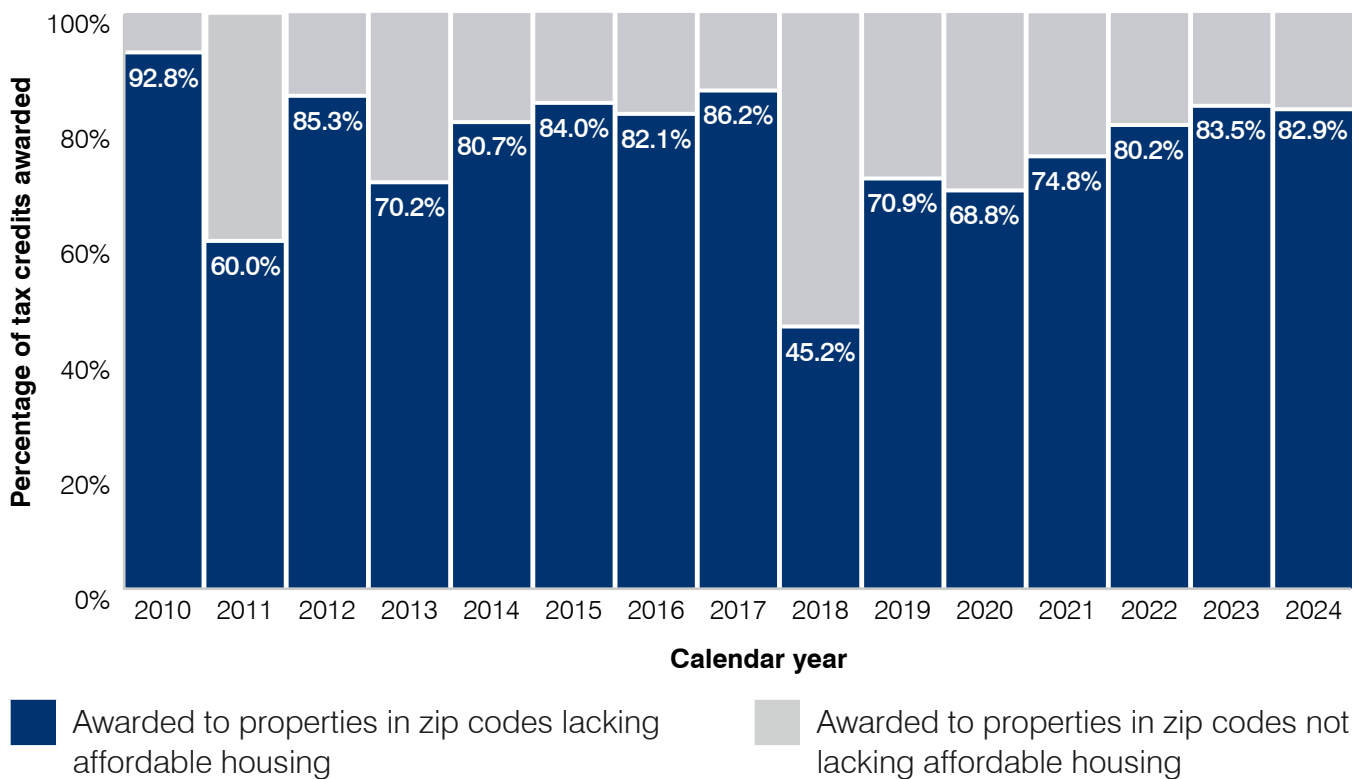
³⁵ Keightley, M. P., 2025.

Our analysis found 70% or more of properties awarded federal and State tax credits by the Department were in zip codes that lacked affordable housing during 12 of 15 years from 2010 through 2024 (see Figure 5).³⁶

According to research, the LIHTC program may not significantly increase the total supply of rental housing because the development of LIHTC properties may be partially offset by a reduction in the development of market-rate rental housing.³⁷ However, the LIHTC program does increase the supply of affordable rental housing by supporting the development of rental units that are affordable to low-income households that might otherwise have been built for higher income households. Research indicates that because LIHTC properties are developed to provide housing for low-income households, it is essential that LIHTC properties be developed in areas where there is a shortage of affordable housing.

Figure 5

Department generally awarded tax credits to properties in zip codes lacking affordable rental housing



Source: Auditor General staff analysis of U.S. Census Bureau data on gross rent as a percentage of household income and Department-published data for LIHTC and STC properties from calendar years 2010 to 2024.

³⁶ Consistent with Department-reported information, our analysis assumed that LIHTC and STC units were built 2 years after the Department awarded the tax credits.

³⁷ McClure, 2019.

► **Economic impacts of LIHTC and STC properties on housing markets may include lower vacancy rates and potentially more tenants contributing to the economy in areas with LIHTC and STC housing units**

Our analysis of rental vacancy data found that LIHTC and STC properties may have a positive economic impact on the housing market in Arizona. Literature we reviewed that assessed the housing market frequently used vacancy rates as an indicator of supply and demand for the housing market (see textbox for more information on vacancy rate).³⁸ As a result, to provide some information about how LIHTC and STC properties may impact the housing market, we used a predictive model to forecast vacancy rates or the number of vacant units in areas with LIHTC and STC properties and compared them to neighboring areas without LIHTC and STC properties. Specifically, we analyzed rental vacancy data from the U.S. Census Bureau using an autoregressive integrated moving average (ARIMA) model to forecast rental vacancy rates for the next 10 years based on long-term trends for Arizona zip codes with LIHTC properties and a control group of zip codes nearby that do not contain LIHTC properties.^{39,40,41} On average, zip code areas containing LIHTC and STC properties are estimated to see a decrease of approximately 4 vacant units per zip code between 2026 and 2036. In contrast, neighboring zip code areas without LIHTC and STC properties are estimated to experience an average decrease of about 1.5 vacant units between 2026 and 2036.^{42,43}

Key term

Vacancy rate: Rental vacancy rates measure the number of vacant-for-rent units relative to all rental housing in a housing market. According to the U.S. Census Bureau, vacancy rates are a function of the total supply and demand for housing in a market. Low vacancy rates could indicate that the housing supply is well aligned with the needs of potential renters and/or the number of available units is less than the housing demanded. High vacancy rates could indicate that the characteristics of available housing units, such as number of bedrooms or cost of rent, do not meet the needs of potential renters and/or the number of available units is greater than the housing demanded.

Source: Fabina, J. (2026). Homeowner and rental vacancies in the American community survey: 2008-2024. *U.S. Census Bureau*. Retrieved 8/5/2026 from <https://www2.census.gov/library/publications/2026/demo/acs-64.pdf>

³⁸ Wang & Immergluck, 2019; McClure, 2019; Sinai, T., & Waldfogel, J. (2005). Do low-income housing subsidies increase the occupied housing stock? *Journal of Public Economics*, 89, pp. 2137 – 2164. <https://doi.org/10.1016/j.jpubeco.2004.06.015>; Scally et al. (2018). Rental housing for a 21st century rural America. *Urban Institute*. Retrieved 4/13/2026 from https://www.urban.org/sites/default/files/publication/99045/rental_housing_for_a_21st_century_rural_america.pdf?utm_source=miragenews&utm_medium=miragenews&utm_campaign=news

³⁹ U.S. Census Bureau. (2024). *American Community Survey 5-Year Estimates—Rental vacancy rates*. Retrieved 2/6/2026 from <https://data.census.gov/table/ACSDT1Y2024.B25004?q=Vacancy+Rates>

⁴⁰ Autoregressive integrated moving average, or ARIMA models, are used for time series forecasting, which uses past forecast errors in a regression-like model rather than simply using past values of the forecast model in a regression.

⁴¹ Hyndman R.J. & Athanasopoulos, G. (2018). *Forecasting: Principles and practice*. *OTexts*. Retrieved 3/31/2026 from <https://otexts.com/fpp2/MA.html>

⁴² All forecasted results were predicted using an ARIMA model that predicted the number of vacant rental units for each individual zip code area. Rental vacancy values forecasted for each zip code were averaged by year to identify differences between areas with LIHTC and STC properties (treatment group) and those without such properties (control group).

⁴³ We forecasted the number of vacant rental units in areas with LIHTC and STC properties, and for a control group from 2026 through 2036. The control group consisted of zip code areas within the same county-subdivision as the LIHTC and STC zip code areas that did not have any reported LIHTC or STC projects within that zip code.

In addition, research we reviewed indicated that when low-income households spend less of their income on housing costs, they have greater capacity to spend in their communities on other goods and services.⁴⁴ As a result, fewer vacancies in areas with LIHTC housing units may potentially result in a positive economic impact to those areas.

► **Research indicates the economic impacts of LIHTC and STC properties include job creation, resulting in increased earnings, but our ability to fully assess the impact of the STC program was limited**

Research we reviewed indicated that LIHTC and STC housing has direct and indirect positive economic impacts on local, State, and federal economies through the creation of jobs, State and local tax revenues, and economic activity from direct operations of the properties and residential spending.^{45,46} For example, direct economic impacts of LIHTC properties included salaries and wages for workers in multiple industries, such as local construction and tradespersons, and toward the procurement of local goods and services.⁴⁷ Additionally, a 2025 economic impact study reported that the construction of 14 LIHTC/STC properties in Arizona, awarded \$13.8 million in tax credits, will create more than 4,500 construction jobs and \$318 million in wages.⁴⁸

Further, according to research, LIHTC properties that are placed in service have ongoing economic impacts. For example, the 2025 economic impact study reported the 14 LIHTC and STC properties would create \$56.3 million in annual spending from residents in the rental units, including retail sales, entertainment, and services.⁴⁹ Additionally, a study of 16 LIHTC properties in Georgia from 2001 to 2019 found that, on average, every \$1 in net tax credits allocated created \$5.79 of new economic impact, including impact to the businesses that sell supplies for construction and provide services for ongoing operation of LIHTC properties.⁵⁰ The study of LIHTC properties in Georgia also reported that the money low- and moderate-income tenants save on LIHTC unit rent shifts to money spent in the local economy.

However, our ability to fully assess the impact of the STC program is limited because the first year the Department awarded State tax credits was 2022, and thus most of the properties awarded State tax credits are not built yet. As a result, the costs associated with the STC program have not yet been fully realized because tax credits cannot be claimed

⁴⁴ McClure, 2019.

⁴⁵ University of Georgia. (2022). Revisiting the economic impact of Low-Income Housing Tax credits in Georgia. *Georgia Affordable Housing Coalition*. Retrieved 6/24/2026 from <https://www.fcs.uga.edu/docs/LIHTC-Economic-Impact-022223-Digital.pdf>; Gonzalez-Hermoso et al. (2026). How affordable housing contributes to local economies and tax revenues. *Urban Institute*. Retrieved 6/24/2026 from <https://www.urban.org/research/publication/how-affordable-housing-contributes-local-economies-and-tax-revenues>; Housing Alliance of Pennsylvania. (2019). *Pennsylvania needs a state housing tax credit*. Retrieved 6/24/2026 from <https://housingalliancepa.org/wp-content/uploads/Housing-Alliance-PA-Tax-Credit-Brochure-Online-Version-Nov-2019.pdf>

⁴⁶ These studies rely on IMPLAN software, which uses industry-specific estimates of tax rates, revenues, and overhead costs and are based on forecasted estimates of potential revenue across multiple industries and actors.

⁴⁷ Housing Alliance of Pennsylvania, 2019; Elliott D. Pollack & Company (2025). *Arizona's Affordable Housing Tax Credit program economic and fiscal impact report—Approved projects as of 2024*. Retrieved 12/15/2025 from https://azhousingcoalition.org/wp-content/uploads/2025/12/Arizona-Affordable-Housing-Tax-Credit-Impact_FINAL-2.pdf

⁴⁸ Elliott D. Pollack & Company, 2025.

⁴⁹ Elliott D. Pollack & Company, 2025.

⁵⁰ University of Georgia, 2022.

by developers until after the property has been built and are claimed annually for 10 years. Further, the economic benefit of the LIHTC and STC program include taxes related to the construction of rental properties and the resulting jobs and spending from that construction activity, which is not unique to LIHTC and STC properties and can similarly be generated by the construction of any rental property.

Question 9: How many additional housing units would have been built if the STC program were continued?

In 2021, statute authorized the STC program, enabling the Department to annually award up to \$4 million in State tax credits to projects that received LIHTC awards and established its sunset date on December 31, 2025. Prior to the STC program sunset, the Department awarded a total of \$15.8 million, or \$158 million over 10 years, in State tax credits to 16 projects that also received LIHTC awards to develop 1,621 housing units.⁵¹ Although the STC program was discontinued in 2025, our forecasting analysis indicates that had it continued, an estimated additional 4,276 LIHTC and STC housing units could have been built in the State by 2036.⁵² Specifically, we reviewed the planned number of units for each property that received LIHTC and STC awards dating back to 1987 and forecasted the total number of units expected to be built through 2036 both with and without continuation of STC using an ARIMA time-series forecasting model. Our analysis of LIHTC and STC awards that the Department made as of calendar year 2025 forecasted that 95,105 LIHTC and STC units would be built in the State by 2036 if the STC program were continued.⁵³ In comparison, we forecasted that 90,830 LIHTC units would be built in the State by 2036 without the continuation of the STC program. See Figure 6, page 45 for more information.

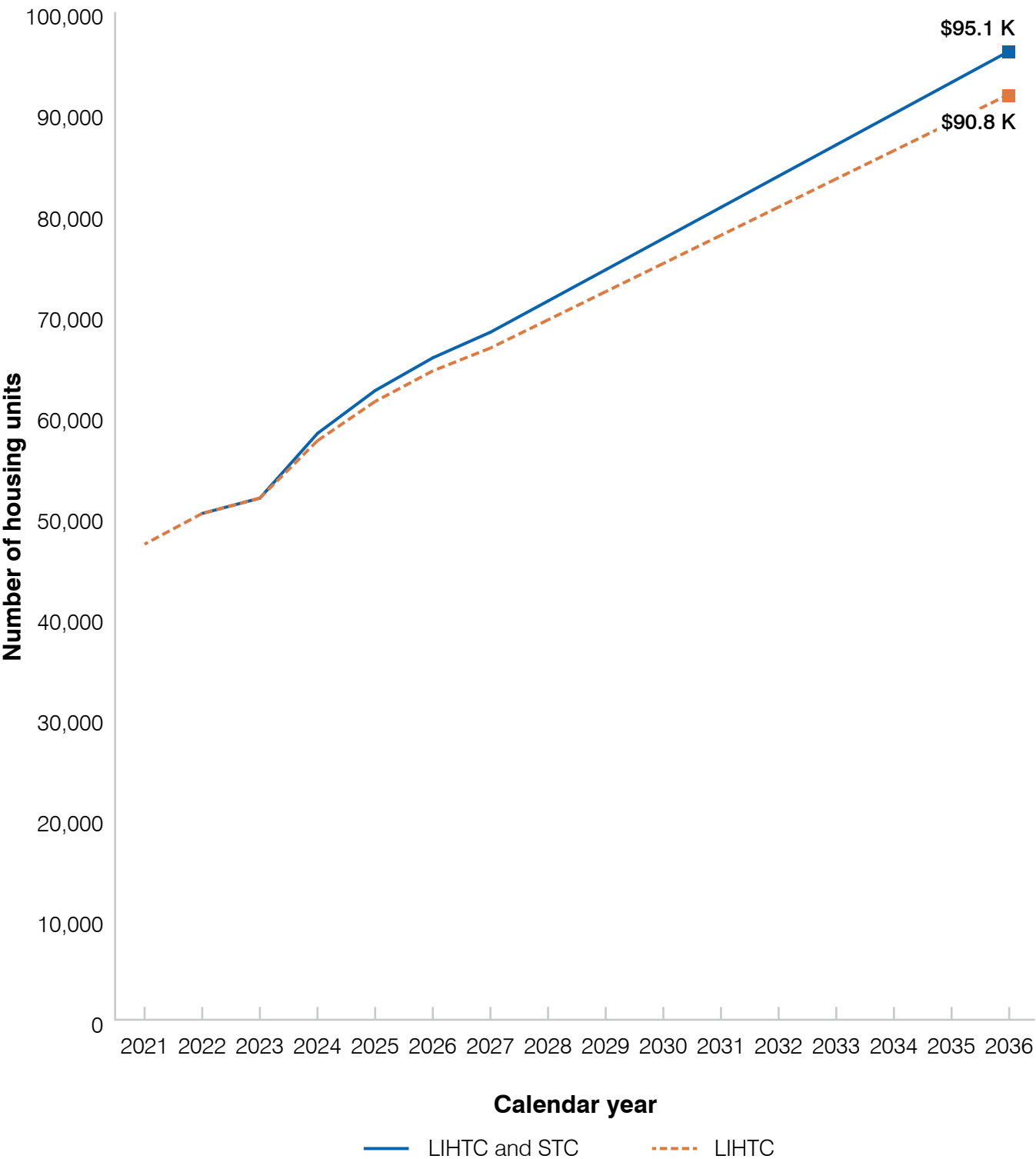
⁵¹ Because the awarded tax credit amount can be claimed every year for 10 years after a property is placed in service, the total amount of the State tax credits that can be claimed is approximately \$158 million for the 10-year period.

⁵² Because State tax credits could only be awarded to projects that also received federal low-income tax credits (LIHTC), our analysis assumes that if the STC program were continued, the additional housing units that would have been built if the STC program continued would have also received LIHTC.

⁵³ From 1987 through 2025, federal and State tax credits were awarded for the development of approximately 67,000 housing units. According to 26 USC 42, developers must keep LIHTC and STC units as low-income units for 30 years after they are placed in service. However, a developer may request to remove the low-income restrictions from their property after the property has been placed in service for 15 years. As a result, properties that were placed in service more than 15 years ago may no longer be low-income properties. The Department's 2026-2027 QAPs includes requirements for developers to waive the right to remove low-income restrictions from their properties for at least 30 years.

Figure 6

The number of LIHTC and STC housing units forecasted to be built in calendar years 2025 through 2036 is 5% more units than the projected number of units to be built without the STC program



Source: Auditor General staff analysis of Department published data for LIHTC and STC properties awarded tax credits from calendar years 1987 to 2025.

Question 10: What types of projects did Arizona and other states prioritize with set-asides in their QAPs for awarding tax credits for LIHTC properties?

Federal law requires all states to allocate, or “set aside,” 10% of their federal tax credit awards for LIHTC properties involving nonprofit organizations.⁵⁴ Additionally, states can establish additional set-asides for other specific types of projects in their respective QAPs. We reviewed the set-asides established in Arizona’s 2026–2027 QAP and the QAPs from 4 neighboring states—Colorado, New Mexico, Nevada, and Utah.⁵⁵ Our review found that Arizona and the 4 other states varied in the number of set-asides established in their QAPs but had some common set-asides for specific types of projects, including establishing set-asides for Tribal housing projects, rehabilitating existing housing, or housing located in specific geographic areas.

Arizona

The Department’s 2026–2027 QAP establishes set-asides to award tax credits for up to 2 projects proposing to rehabilitate existing housing, up to 2 projects proposing to construct new housing on Tribal land, and up to 3 projects proposing to construct new housing in any of the State’s 13 rural counties and the remaining tax credit awards made for projects in Maricopa and Pima Counties.⁵⁶ Consistent with its QAP, the Department’s calendar year 2026 awards included 2 projects proposing to rehabilitate existing housing, 1 project proposing to construct new housing on Tribal land, 3 projects proposing to construct new housing in a rural county, and 2 projects in Maricopa County and 3 projects in Pima County proposing to construct new housing.⁵⁷

Colorado

Colorado did not establish any state-specific set-asides in its 2025–2026 QAP.

Nevada

Nevada’s 2026 QAP sets aside 15% of its annual tax credit allocation for awards to projects on Tribal land and sponsored by Tribal governments or Tribally designated housing entities, 10% of tax credits for awards to rehabilitation projects designated as United States Department of Agriculture (USDA) Rural Development projects, and 10% of all tax credits to provide additional awards to projects that have previously received an award and require additional financial support.⁵⁸ According to Nevada’s 2026 QAP, after awarding tax credits according to these set-asides, Nevada will award the remaining tax credits to projects in specific geographic areas in proportion to each area’s population.

⁵⁴ 26 USC 42(h)(5).

⁵⁵ We reviewed the 2025–2026 Colorado QAP, the 2026 Nevada QAP, the 2026 New Mexico QAP, and the 2026 Utah QAP.

⁵⁶ The Department’s 2026–2027 QAP also establishes a requirement to set aside 15% of awards for LIHTC projects involving nonprofit organizations, surpassing the federally required 10%.

⁵⁷ The Department made a fourth award for a project to construct new housing in a rural county that proposed an innovative or unique opportunity. The Department’s 2026–2027 QAP states that the Department may award tax credits to 1 project proposing an innovation or unique opportunity, which includes projects proposing unique construction methods or an innovative approach to development. This award is not constrained to a particular set aside or geographic location.

⁵⁸ The USDA provides loans for developing and rehabilitating rural properties, including properties for low-income households.

New Mexico

New Mexico's 2026 QAP sets aside 20% of its annual tax credit allocation for awards to projects targeting underserved populations, which includes permanent supportive housing and/or Tribal housing projects.

Utah

Utah's 2026 QAP sets aside 30% of its annual tax credit allocation for awards to permanent supportive housing projects, 15% for awards to small projects in nonmetropolitan areas, 10% for awards to projects rehabilitating existing rental housing, and 5% for government and nonprofit sponsored homeownership projects.⁵⁹

Question 11: Do other states have state low-income housing tax credit programs?

We identified that 34 other states have or once had a state-based low-income housing tax credit program to facilitate the construction or rehabilitation of affordable housing, similar to Arizona (see Table 4, pages 48 through 54). Our review found that several states' low-income housing tax credit programs are structured similar to Arizona—meaning that the states award tax credits to developers to construct low-income housing developments. However, we also found that some states structure their programs differently. For example, Illinois provides state tax credits to eligible persons or entities who donate money or assets to nonprofit organizations that support affordable housing projects. Additionally, New Mexico provides state tax credits to eligible persons or entities who donate money or assets directly to an affordable housing project or a specified state fund.

Our review also identified 2 other states that, similar to Arizona, repealed their respective state low-income housing tax credit programs without later reauthorizing them—North Carolina in 2015 and North Dakota in 2016 (see Introduction, page 2, for more information on the sunset of Arizona's STC). In contrast, 3 states—Colorado, Pennsylvania, and Virginia—repealed their respective state low-income housing tax credit programs but later reauthorized new programs.

The total dollar amount of state tax credits authorized to be allocated, or the ceiling amount, varies from state to state. For example, of the states that authorized issuing tax credits in 2026, California had the highest ceiling amount at \$500 million, whereas Arkansas was the lowest at \$250,000.⁶⁰

⁵⁹ Utah's QAP defines a small project as a housing property with 50 or fewer units.

⁶⁰ The state-based low-income housing tax credit programs we identified operate based on varying time frames. For example, some are based on the calendar year, whereas others are based on the fiscal or taxable year.

Table 4**Arizona and 34 other states have, or once had, a state-based low-income housing tax credit program**As of 2026¹

State	Starting year	Ending year	Ceiling amount ²	Program description
Alabama	2024	2027	\$5,000,000	State tax credit awards are available to projects that receive LIHTC awards, with priority given to projects that receive 4% LIHTC awards. State tax credit awards cannot exceed \$2 million per project.
Alaska	Not established	N/A	N/A	N/A
Arizona ³	2021	2025	4,000,000	Arizona's program sunset in 2025. State tax credit awards were available to projects that received LIHTC awards. The state tax credit award was equal to at least 50% of the LIHTC award.
Arkansas	1997	2030	250,000	State tax credit awards are available to projects that receive LIHTC awards. The state tax credit award is equal to 20% of the LIHTC award.
California	1987	No end date	570,000,000	State tax credit awards are available to projects that receive LIHTC awards.
Colorado ⁴	2000	2031	24,000,000	State tax credit awards are generally available to projects that receive LIHTC awards.

Table 4 continued

State	Starting year	Ending year	Ceiling amount ²	Program description
Connecticut	1987	No end date	10,000,000	Connecticut awards state tax credits to nonprofit developers, who may sell credits to businesses in return for donations to approved affordable housing projects. State tax credit awards are available for various types of projects, including projects that receive federal LIHTC awards.
Delaware	Not established	N/A	N/A	N/A
Florida ⁵	1999	No end date	N/A	State tax credit awards are available to projects that receive LIHTC awards and are located in certain urban areas.
Georgia	2001	No end date	100,000,000	State tax credit awards are available to projects that receive LIHTC awards. The state tax credit award is equal to or less than the LIHTC award.
Hawaii ⁶	1988	No end date	4,100,000	State tax credit awards are generally available to projects that receive LIHTC awards. The state tax credit award is equal to 50% of the LIHTC award.
Idaho	Not established	N/A	N/A	N/A
Illinois	2001	2026	38,000,000	State tax credits are available to individuals or businesses that donate to nonprofits to support approved affordable housing projects.

Table 4 continued

State	Starting year	Ending year	Ceiling amount ²	Program description
Indiana	2022	2028	30,000,000	State tax credit awards are available to projects that receive 4% LIHTC awards. The state tax credit award is equal to a value between 40% and 100% of the LIHTC award.
Iowa	Not established	N/A	N/A	N/A
Kansas	2022	2028	8,800,000	State tax credit awards are available to projects that receive 9% LIHTC awards. The state tax credit award is equal to the LIHTC award.
Kentucky	Not established	N/A	N/A	N/A
Louisiana	Not established	N/A	N/A	N/A
Maine	2019	2028	10,000,000	State tax credit awards are available to projects that receive 4% LIHTC awards.
Maryland	Not established	N/A	N/A	N/A
Massachusetts	1999	No end date	60,000,000	State tax credit awards are available to projects that receive LIHTC awards. Massachusetts also offers state tax credits to individuals or businesses that donate to projects that receive LIHTC awards.
Michigan	Not established	N/A	N/A	N/A
Minnesota	2021	2030	9,900,000	State tax credits awards are available to individuals or businesses who donate to a state fund for affordable housing.
Mississippi	Not established	N/A	N/A	N/A

Table 4 continued

State	Starting year	Ending year	Ceiling amount ²	Program description
Missouri ⁷	1990	No end date	21,900,000	State tax credit awards are available to projects that receive LIHTC awards. The state tax credit award cannot be greater than the LIHTC award.
Montana	Not established	N/A	N/A	N/A
Nebraska	2016	No end date	5,000,000	State tax credit awards are available to projects that receive LIHTC awards. The state tax credit award is equal to the LIHTC award.
Nevada	2019	No end date	10,000,000	State tax credit awards are available to projects that receive LIHTC awards.
New Hampshire	Not established	N/A	N/A	N/A
New Jersey	2020	2029	183,000,000	State tax credit awards are available to cover financing gaps for certain types of commercial, mixed-use, and residential real estate projects, including projects that receive LIHTC awards.
New Mexico ⁸	2005	No end date	6,000,000	State tax credit awards are available to individuals and businesses who donate to an approved affordable housing project or the state's affordable housing trust fund.
New York	2000	No end date	187,000,000	State tax credit awards are available to projects that receive LIHTC awards, as well as affordable housing projects that serve higher income levels.

Table 4 continued

State	Starting year	Ending year	Ceiling amount ²	Program description
North Carolina	1999	2015	N/A	N/A
North Dakota	2011	2016	N/A	N/A
Ohio	2023	2027	100,000,000	State tax credit awards are available to projects that receive LIHTC awards.
Oklahoma	2014	No end date	4,000,000	State tax credit awards are available to projects that receive LIHTC awards. The state tax credit award cannot be greater than the LIHTC award.
Oregon	1989	2032	35,000,000	State tax credits awards are available to lenders who provide or finance loans at below-market rates for affordable housing projects, including projects that receive LIHTC awards.
Pennsylvania ⁹	2019	No end date	10,000,000	State tax credits are sold to taxpayers to establish a state affordable housing fund, which provides financial support to projects that receive LIHTC awards.
Rhode Island	2023	2028	30,000,000	State tax credit awards are available to projects that receive LIHTC awards.
South Carolina	2020	No end date	20,000,000	State tax credit awards are available to projects that receive LIHTC awards. The state tax credit award cannot be greater than the LIHTC award.
South Dakota	Not established	N/A	N/A	N/A

Table 4 continued

State	Starting year	Ending year	Ceiling amount ²	Program description
Tennessee	2024	No end date	10,000,000	State tax credit awards are available to projects that receive LIHTC awards.
Texas	2023	2030	25,000,000	State tax credit awards are available to projects that receive LIHTC awards. The state tax credit award cannot be greater than the LIHTC award.
Utah	1994	No end date	10,000,000	State tax credit awards are available to projects that receive LIHTC awards. The state tax credit award cannot be greater than the LIHTC award.
Vermont	1999	No end date	400,000	State tax credit awards are available to projects that receive LIHTC awards.
Virginia ¹⁰	1989	2030	64,000,000	State tax credit awards are available to projects that receive LIHTC awards. The state tax credit award cannot be greater than the LIHTC award.
Washington	Not established	N/A	N/A	N/A
West Virginia	Not established	N/A	N/A	N/A
Wisconsin	2017	No end date	42,000,000	State tax credit awards are available to projects that receive 4% LIHTC awards.
Wyoming	Not established	N/A	N/A	N/A

Table 4 continued

- ¹ As previously mentioned, the state-based low-income housing tax credit programs we identified operate based on varying time frames. For example, some are based on calendar year, whereas others are based on the fiscal or taxable year.
- ² This amount represents the base ceiling amount and does not include additional monies that may be available, such as carryover funds from previous years.
- ³ Arizona's ceiling amount is for 2025. As noted in the Introduction on page 2, Arizona's STC program was discontinued in calendar year 2025.
- ⁴ Colorado repealed its state low-income housing tax credit program in 2002 and reauthorized it in 2014.
- ⁵ We did not identify any allocation of state tax credits for Florida's program.
- ⁶ Estimate for 2025 from: Novogradac. (2025). *2025 State Tax Credit information*. Retrieved 6/19/2026 from <https://www.novoco.com/resource-centers/affordable-housing-tax-credits/2025-state-tax-credit-information>. We were unable to identify the ceiling amount for 2026 for Hawaii.
- ⁷ Estimate for 2026 from: Novogradac. (2026). *2026 State Tax Credit information*. Retrieved 6/19/2026 from <https://www.novoco.com/resource-centers/affordable-housing-tax-credits/2026-state-tax-credit-information>.
- ⁸ Estimate for 2026 from: Novogradac, 2026.
- ⁹ Pennsylvania's state low-income housing tax credit program was repealed and reauthorized in 2025.
- ¹⁰ Virginia repealed its state low-income housing tax credit program in 2016 and reauthorized it in 2021.

Source: Auditor General staff review of states' statutes, government websites, and information from Novogradac's website.

Pursuant to A.R.S. §41-2954, the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation, consolidation, modification, or termination of the Department. The sunset factor analysis includes additional findings and recommendations not discussed earlier in the report.¹

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.²
- ▶ 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.³

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

We identified various areas where the Department needs to continue its efforts to better meet its statutory objectives and purposes.

¹ As part of our work to answer the statutory sunset factor questions, we reviewed the Department's progress in implementing the outstanding recommendations from our 2 October 2024 reports issued as part of the Department's 2024 sunset review, including efforts it has taken since those reports' initial followups. See Arizona Auditor General reports 24-113 *A Performance Audit of the Arizona Department of Housing—Oversight of Selected Housing Programs*, 24-114 *A Performance Audit and Sunset Review of the Arizona Department of Housing*, *Arizona Department of Housing—Initial Followup of Report 24-113*, and *Arizona Department of Housing—Initial Followup of Report 24-114*.

² 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.

³ 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.

Specifically, the Department:

► **Developed a written plan outlining steps it will take to implement key practices for providing program oversight, but it is still in process of implementing its written plan**

Our October 2024 performance audit of the Department's oversight of selected housing programs found that the Department inadequately oversaw affordable housing projects we reviewed, 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 grantee's risk of noncompliance to determine its level of monitoring. To address these issues, we recommended the Department develop and implement a written plan outlining the steps and associated timelines that it will take to implement key practices for providing program oversight consistent with federal and State requirements and recommended practices. We also recommended the Department assess its oversight practices for housing programs we did not review and align them with the key oversight practices outlined in our report and provide training to relevant staff on its oversight policies, procedures, and guidance. As of our June 2025 initial followup, the Department had developed a draft written plan for implementing key program oversight practices and draft procedures for inspections, payment requests, and risk-assessment processes for its other housing programs.

During this audit, we found that the Department developed and is in the process of implementing a written plan that outlines specific action steps it is taking to implement key program oversight practices, including steps and anticipated completion dates for developing and implementing updated policies and procedures.

For example, the Department:

- Made revisions to its procedures to include its new project-reporting process for special needs housing and emergency shelter project grantees that requires them to submit project reports with all payment requests for the payment request to be approved and paid. Although the Department began implementing its new process in January 2026, it did not finalize its procedures outlining the process until the end of June 2026.
- Developed a risk-assessment tool and updated its procedures for special needs housing and emergency shelter projects to include steps for conducting risk assessments following its review of grantee applications and requiring additional monitoring for grantees determined to be higher risk. However, the Department reported that it will not implement its risk-assessment process for special needs housing projects until October 2026 because the application process for Continuum of Care grant monies has been suspended due to a federal court order. Additionally, the Department has not implemented its risk-assessment process for emergency shelter projects because the Department has not received an appropriation for the Homeless Shelter and Services Fund since fiscal year 2024 and, thus, has not solicited applications for emergency shelter projects since November of 2023. According to the Department, if it receives an additional appropriation for the Homeless Shelter and

Services Fund or a special line item appropriation for emergency shelter projects in the future, it will follow its risk-assessment procedures.

- Developed a risk-assessment tool and procedures for using information obtained during its application process to conduct risk assessments of rental housing development projects and requiring additional monitoring for grantees determined to be higher risk. The Department reported that it implemented its risk-assessment procedures when it completed its review of LIHTC applications in June 2026.

Additionally, the Department's written plan includes a step for updating its procedures to align with key oversight practices for other housing programs, including for the Community Development Block Grant program. The Department drafted updates to its Community Development Block Grant procedures to ensure they align with key oversight practices, including requirements for inspections, verifying that expenses included in payment requests are supported and allowable, reviewing and monitoring project reports, and conducting risk assessments. According to the Department, it finalized these updates to its procedures and began implementing them in June 2026. Lastly, in July 2025, the Department developed and provided training related to its oversight policies and procedures to relevant staff. However, since many of the Department's policies and procedures were in draft form, the training will need to be updated to include the changes made, and staff will need to be trained on these changes.

► **Developed processes for reporting to the director on progress made with implementing and sustaining key program oversight practices and will need to continue these processes until all key oversight practices are implemented and to ensure the sustained implementation thereafter**

As discussed above, our October 2024 performance audit of the Department's oversight of selected housing programs found that the Department failed to provide adequate oversight of affordable housing projects we reviewed. To help ensure key oversight practices were implemented and sustained, we recommended the Department require program staff to provide regular reports to the Department director on the progress in implementing key oversight practices and develop and report to the director on key oversight metrics to ensure the sustained implementation thereafter. Our June 2025 initial followup found that the Department director and staff had held monthly meetings to provide updates on the progress made in implementing key oversight practices. Additionally, the Department had identified oversight areas, such as inspections and performance reports, for which it planned to develop performance metrics and provide regular reports to Department leadership.

During this audit, we found that the Department director and staff have continued to hold monthly meetings to provide updates on the progress made in implementing key oversight practices, including which staff members are responsible for implementing the various steps in the plan and overall anticipated dates of implementation. Additionally, in January 2026, the Department developed and began implementing templates for providing monthly reports on oversight metrics to Department leadership, such as the number of required project reports that were received from grantees and the number not received.

As discussed above, the Department is in the process of developing and/or implementing key oversight practices and therefore will need to continue to report to the director on progress made until these processes are implemented and continue to report on key oversight metrics to help sustain implementation thereafter.

► **Despite reporting to the Legislature that its review did not identify any improper payments made to grantees, the Department's review identified the need for additional supporting documentation for some expenses for more than half of the payment requests submitted by special needs housing grantees, which is necessary to review prior to reporting to the Legislature that it did not pay grantees for unallowable expenses**

Our October 2024 performance audit of the Department's oversight of selected housing programs found that the Department approved and paid grantees without obtaining and reviewing adequate supporting documentation demonstrating grantees incurred allowable program expenses. For example, our review found unsupported housing assistance expenses and unsupported costs for staff administration and supportive services. To address this issue, we recommended that the Department conduct a review of approved and paid payment requests since 2021 to identify unallowable payments made to grantees and recover those monies.

As of our June 2025 initial followup, the Department had developed a payment request review tracker for its review of approved and paid payment requests since 2021.⁴ Additionally, the Department reported that it had conducted an initial review of selected payment requests and planned to conduct a more in-depth review of payment requests by December 2025.

During this audit, we found that the Department had continued its review of approved and paid payment requests and was following a risk-based approach by evaluating 1 approved and paid payment request per special needs housing grantee, per quarter, since fiscal year 2021. In January and May 2026, the Department reported to the Legislature on the status of its review of selected payment requests and indicated that its review had not identified improper payments. As of May 2026, the Department's payment request review tracker indicated that it had reviewed 437 of 450 payment requests it had selected for review. The Department reported that as of June 2026, it had reviewed all selected paid payment requests that special needs housing grantees submitted.

However, despite reporting to the Legislature that its review did not identify any improper payments, the Department's review identified the need for additional supporting documentation for some expenses, such as invoices or receipts to support housing assistance expenses, for 251 of the payment requests it reviewed. This supporting documentation would be necessary for the Department to verify that it did not improperly pay grantees for unallowable expenses. As of May 2026, the Department had requested additional supporting documentation for 69 of 251 payment requests and had received additional documentation for 36 of them but had not yet reviewed the additional

⁴ The Department reported that its review has generally been by State fiscal year; however, some projects have been reviewed by federal fiscal year because the grantees' contracts were by federal fiscal year.

documentation it received. According to the Department, it plans to request and receive additional supporting documentation for the remaining 182 payment requests by the end of calendar year 2026 and will conduct a further review of all 251 payment requests once it receives additional supporting documentation.

Additionally, our review of 4 payment requests that the Department reviewed, including 2 the Department requested additional supporting documentation for and 2 the Department determined had adequate supporting documentation, found that the Department did not identify all instances when additional supporting documentation was needed to verify expenses, thereby limiting its ability to ensure payments were for appropriate expenditures and further hindering its implementation of our prior recommendations.⁵

Specifically:

- Two payment requests lacked documentation to support expenses for rent payments and project administration or supportive services, such as case management or moving assistance included in the payment request. Although the Department requested additional documentation for the rent expenses included in these payment requests, it did not similarly do so for the administrative or supportive service expenses.
- One payment request that the Department determined had all necessary supporting documentation included supportive services expenses, but the payment request did not include documentation to support some of these expenses, such as staff time sheets or pay stubs. The payment requests also did not include documentation to support that program participants were provided required supportive services. Although the Department reported that it reviews supportive services documentation during its on-site inspections to verify that expenditures included in grantee payment requests are accurate, our review of the Department's site-inspection documentation could not confirm that the Department had conducted any expenditure verification during inspections for this grantee.
- One payment request that the Department determined had all necessary supporting documentation lacked enough detail to support that grantee staff were providing the required supportive services to program participants.⁶

► **Developed a process for tracking expenditures for its permanent supportive housing projects but lacks performance measures that are specific to permanent supportive housing**

Our October 2024 Department performance audit and sunset review found that the Department's Balance of State Continuum of Care strategic plan included various goals and strategies related to increasing the availability and use of permanent supportive

⁵ We judgmentally selected 4 of 374 payment requests that the Department had completed its review of based on whether or not the Department had identified concerns with the payment requests, including 1 of 73 reviewed payment requests from fiscal year 2021 that Department data indicated required additional review, 1 of 53 reviewed payment requests from fiscal year 2022 that Department data determined required additional review, 1 of 202 reviewed payment requests from fiscal year 2023 that Department data indicated did not require additional review, and 1 of 46 reviewed payment requests from fiscal year 2024 that Department data indicated did not require additional review.

⁶ The Department reported that as part of its new requirement for special needs housing grantees to submit project reports with all payment requests, grantees are required to report information on supportive services provided to program participants.

housing. However, the Department had not systematically tracked some data necessary for assessing its activities related to achieving these goals and strategies, including systematically tracking permanent supportive housing expenditures. We recommended that the Department develop and implement a process to systematically track its permanent supportive housing expenditures and processes for establishing permanent supportive housing performance measures for each Department program with permanent supportive housing goals.

Our October 2025 initial followup found that the Department developed a spreadsheet to track expenditures for its permanent supportive housing projects, but it did not include related performance measures as part of its tracking.

During this audit, we found that the Department continued to track expenditures for its permanent supportive housing projects and reported that its permanent supportive housing performance measures are reflected in its Balance of State Continuum of Care performance measures for its comprehensive performance-measurement system (see below for information on the Department's comprehensive performance-measurement system). However, our review of the Department's Balance of State Continuum of Care performance measures found that, although they included 1 output measure and 1 outcome measure for collectively assessing the performance of its permanent supportive housing, emergency shelter, temporary housing, and rapid rehousing projects, the Department continues to lack output and outcome measures to specifically assess the performance of permanent supportive housing projects.⁷ Such performance measures could include the number of individuals who received permanent supportive housing or the number of housing units that were funded for each permanent supportive housing project.

► **Developed a comprehensive performance-measurement system, but some program-performance measures need improvement**

Our October 2024 Department performance audit and sunset review found that the Department lacked a comprehensive process to track and evaluate its programs' performance, limiting its ability to ensure its programs are addressing the State's housing problems. We recommended that the Department develop and implement a documented comprehensive performance-measurement system Department-wide and for its programs.

Following our October 2024 Department performance audit and sunset review, during the Fifty-seventh Legislature, first regular session, the Legislature passed Laws 2025, Ch. 241, §12, which added a statutory requirement for the Department to develop and implement a comprehensive performance-measurement system for tracking, evaluating, and reporting on program outcomes, including establishing annual measurable goals, performance benchmarks, and outcomes.⁸ Statute also requires the Department to submit quarterly comprehensive performance-measurement reports to the Legislature.⁹

⁷ The Department's comprehensive performance-measurement system includes an output measure on the number of individuals reported to have had a positive exit from emergency shelter, temporary housing, rapid rehousing, and/or permanent supportive housing, and an outcome measure on the percentage of individuals reported to have a positive exit from emergency shelter, temporary housing, rapid rehousing, and/or permanent supportive housing.

⁸ Laws 2025, Ch. 241, §12, added A.R.S. §41-3956 to Department statutes, effective September 26, 2025.

⁹ A.R.S. §41-3956 requires the Department to provide quarterly comprehensive performance-measurement reports to the President of the Arizona Senate and the Speaker of the Arizona House of Representatives.

In December 2025, the Department developed draft procedures and began implementing its comprehensive performance-measurement system that includes steps and time frames for establishing and tracking measurable program goals and performance measures. Although the Department's procedures require the development of annual measurable goals and performance measures, they do not require that performance measures include benchmarks or outcomes. Additionally, our review of the Department's 2 comprehensive performance-measurement reports that it submitted to the Legislature in January and May 2026 found that the Department developed goals and output measures for its housing programs but lacked performance benchmarks and measurable outcomes for some programs. Specifically, our review of the Department's performance measures for the Balance of State Continuum of Care, State Housing Trust Fund, and 4% and 9% LIHTC programs, found that the Department had only developed goals, benchmarks, and outcomes for the Balance of State Continuum of Care.

For example:

- The Department's comprehensive performance-measurement report includes a goal for the Balance of State Continuum of Care program to reduce the number of households experiencing homelessness by 2% in fiscal year 2026 from the prior year benchmark of 2,005 households. The Department developed 2 quarterly performance measures for this goal, including an output measure on the number of individuals experiencing homelessness and an outcome measure on the percent change in households experiencing homelessness from the fiscal year 2025 benchmark.
- For the 9% LIHTC program, the Department developed a goal to leverage tax credits to facilitate the funding for 600 new affordable housing units and 2 output measures, including the total number of units it awarded tax credits for and the number of those units in rural communities. However, the Department did not include a benchmark to indicate prior performance and provide context for its goal and performance measures, nor did it develop an outcome measure to assess if the program was working as intended.

Additionally, although the Department's comprehensive performance-measurement system does not include Department-wide goals, it has included Department-wide goals in its fiscal years 2025 through 2029 strategic plan, including a goal for its housing programs to reduce the number of individuals experiencing homelessness throughout the State by 2% by June 2026.

Lastly, the Department developed procedures for conducting annual evaluations of each program to assess program effectiveness that includes reviewing whether program goals and performance measures included in its comprehensive performance-measurement system were met and determining if updates are needed. However, as mentioned above, the Department lacks performance benchmarks and measurable outcomes for some of its programs that would help it determine whether programs are working as intended. The Department reported that it conducted its first annual program evaluations in July through August 2026 and made revisions to its program performance measures for fiscal year 2027.

► **Developed and began implementing policies, procedures, and training for wire transfers**

Our October 2024 Department performance audit and sunset review found that 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 as part of a wire transfer to fraudulent actors. We recommended that the Department develop and implement policies and procedures to securely process wire transfers and to notify relevant parties, such as the Arizona Attorney General and Arizona Auditor General, when it becomes aware of potential fraud, theft, waste, and/or abuse. As of our October 2025 initial followup, the Department had developed some policies and procedures for wire transfers that included steps for obtaining and verifying wire transfer bank instructions.

During this audit, we found that the Department finalized its wire transfer policies and procedures in October 2025, which include steps for obtaining and verifying wire transfer bank instructions. For example, the Department's policies and procedures indicate that after receiving an invoice or request for payment from a grantee, a Department accounting supervisor must contact the recipient and verify their contact information and banking details. Additionally, the Department's policies and procedures require supervisory review and approval for all wire transfers, as well as completing a test wire transfer before the full amount is transferred. They also require accounting staff to complete monthly reconciliations for all accounts used to make payments.

As of May 2026, the Department had completed 1 wire transfer to HUD in March 2026 using its finalized policies and procedures.¹⁰ Our review of this wire transfer found that the Department followed its procedures for processing wire transfers, such as by verifying HUD's banking information, completing a test transfer of \$1 prior to transferring the full amount, and confirming that HUD received the full wire amount. Further, the Department completed a reconciliation for the transfer the following month, as required by its procedures.

Further, the Department's procedures require the Department to notify various parties, such as the Arizona Department of Administration, the Arizona Auditor General, and the Arizona Attorney General, when it suspects or becomes aware of suspected fraud.¹¹ In December 2025, the Department was notified by a third party of an attempt to fraudulently divert funds intended for the Department. However, the Department reported that the third party identified the fraud attempt and did not complete the transaction, and that no funds were diverted or compromised. Additionally, the Department reported the fraud attempt to the required parties 5 days after the attempt occurred.

¹⁰ The Department wire transferred more than \$36,000 to HUD for administrative and service costs for the Emergency Housing Voucher Program, such as services for helping individuals who are at risk of homelessness find housing.

¹¹ Laws 2025, Ch. 241, §12, requires the Department to establish secure wire transfer protocols to mitigate fraud risks such as dual authorization for all wire transfers exceeding \$10,000 and reconciling and auditing all wire transfers monthly. Further, the Department is required to report any instance of fraudulent activity involving State monies to the Governor, Joint Legislative Budget Committee, and the Auditor General within 10 business days and initiate restitution efforts within 30 days after identifying fraudulent activity.

Finally, the Department provided training on its updated policies and procedures to all accounting staff in December 2025. Additionally, the Department updated its policies to require wire fraud training for additional staff during initial onboarding and annual refresher training for staff involved in wire transfers.

► **Developed a plan to conduct a cost study analysis related to manufactured housing fees**

Our October 2024 Department performance audit and sunset review found that the Department had not fully implemented recommendations from a 2011 audit to 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.¹² Therefore, we recommended that the Department fully implement these recommendations. As of our October 2025 initial followup, the Department had not implemented our recommendations.

However, during this audit, the Department reported that it plans to contract with a vendor to perform a cost-study analysis of the functions within the Department's Office of Manufactured Housing, which would help determine if the manufactured housing fees the Board establishes are reasonable and aligned with the Department's operational costs. The Department reported that it intends to select a vendor for the cost-study analysis around July 2026. Further, the Department reported that it anticipates that the selected vendor would complete the initial cost-study analysis by December 2026.

Recommendations to the Department

Continue to implement its written plan for implementing the key practices for providing program oversight consistent with federal and State requirements and recommended practices. Its written plan should continue to be updated as necessary and include steps and deadlines for developing and/or updating and implementing policies, procedures, and/or guidance for:

- 11.** Conducting inspections for all special needs housing, emergency shelter, and affordable housing development projects.
- 12.** Verifying that special needs housing and emergency shelter expenses in payment requests are supported and allowable based on special needs housing and emergency shelter program requirements and funding agreements and outlining the supporting documentation that should be submitted with payment requests.
- 13.** Ensuring special needs housing and emergency shelter project grantees submit required project reports and Department staff review the reports and hold grantees accountable and take enforcement action when they do not submit required reports and information, such as not approving grantees' payment requests, as necessary.

¹² See Arizona Auditor General report 11-13 *A Performance Audit and Sunset Review of the Arizona Department of Fire, Building and Life Safety*. Effective August 2016, Laws 2016, Ch. 128, §§91 and 94, transferred the statutory responsibilities related to manufactured housing from the Arizona Department of Fire, Building and Life Safety to the Department.

- 14.** Conducting annual risk assessments for special needs housing and emergency shelter projects and providing additional monitoring activities for grantees determined to be higher risk.
- 15.** Using information obtained during its application process to determine additional monitoring activities for rental development project grantees determined to be higher risk.
- 16.** Continue to require program staff to provide frequent and regular reports to the Department director on their progress implementing the Department's written plan outlined in recommendations 11 through 15.
- 17.** Continue to implement a process for regular reporting on and review of key oversight metrics by Department leadership to ensure the sustained implementation of program oversight practices outlined in recommendations 11 through 15.
- 18.** Evaluate its oversight processes for all housing programs and align them with the key oversight practices outlined in our October 2024 performance audit, including establishing processes for conducting inspections, reviewing payment requests, requiring reports, and conducting risk assessments.
- 19.** Provide periodic training to all relevant staff on the Department's oversight policies, procedures, guidance, and requirements, including providing training to new staff. As part of its training, the Department should explicitly notify staff that they are required to follow policies and procedures for reviewing payment requests.
- 20.** Continue its review of approved and paid payment requests since 2021, including obtaining and reviewing adequate supporting documentation demonstrating grantees incurred allowable program expenses to identify unallowable payments made to grantees and recover those monies.
- 21.** Continue to implement a process to systematically track its permanent supportive housing expenditures and develop and implement processes for establishing output and outcome measures that are specific to permanent supportive housing for Department programs with permanent supportive housing goals.
- 22.** Revise and implement its comprehensive performance-measurement system procedures to include processes for tracking, evaluating, and establishing annual measurable goals, performance benchmarks, and measurable outcomes for its programs and Department-wide.
- 23.** Conduct 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.

24. Continue to implement its policies and procedures for processing wire transfers, and provide training to all relevant employees on its wire transfer policies and procedures.
25. Continue with its efforts to perform a cost-study analysis to help ensure the fees the Board establishes are commensurate with the Department's regulatory costs.

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

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 initial review did not identify other governmental or private entities that duplicate the Department's key statutory objectives and purposes. However, as we reported in our October 2024 performance audit and sunset review, the Department has coordinated with other agencies that provide similar or related services, including the Arizona Health Care Cost Containment System (AHCCCS) and the Arizona Department of Economic Security (DES). Our review during this audit found that AHCCCS and the Department continue to participate in the Governance 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 nonmetropolitan counties. The Department and AHCCCS have also continued to collaborate on establishing a State-wide data-sharing system that integrates information from multiple State and local agencies on individuals identified as experiencing homelessness and any housing and/or supportive services being provided to these individuals. Finally, beginning in calendar year 2025, the Department convened a new working group with various State agencies, including AHCCCS and DES, designed to coordinate strategies and activities to reduce homelessness.

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

Our October 2024 performance audit and sunset review found that the Department's Board of Manufactured Housing (Board) had not developed some rules required by statute.

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 dealers' trust and escrow accounts.

Therefore, we recommended that the Department adopt the required rules or work with the Legislature to remove the rulemaking requirements from statute. As of our October 2025 initial followup, the Department had developed draft changes to remove the rulemaking requirements from statute.

Our review during this audit found that this recommendation has been implemented. Specifically, in 2026, during the Fifty-seventh Legislature, second regular session, the Legislature passed and the Governor signed House Bill 2868, which removes the rulemaking requirements from A.R.S. §§41-4032, 41-4036, and 41-4030 (see Appendix B, pages b-1 through b-8 for more information).

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 appropriate public access to its rulemakings and meetings, including soliciting public input when making rules, but did not consistently comply with its public records request policies and procedures to provide written notice to requestors when public records requests will take more than 5 business days to fulfill.¹³

¹³ As reported in our 2024 Department performance audit and sunset review, our review of the Department's rulemakings in October 2021, September 2020, and June 2018—all 3 related to the Board of Manufactured Housing—found that the Department informed the public of its rulemaking and provided opportunities for public input.

Specifically:

- ▶ Although the Department has not finalized any additional rules since our 2024 sunset review, it has initiated a new rulemaking related to its manufactured housing responsibilities, including updating rules to align with international building codes. As of April 2026, the Department issued a notice of proposed rulemaking and held an oral proceeding open to the public.
- ▶ We reviewed the Board's compliance with open meeting law requirements for 1 Board meeting held in April 2026 and found that the Board complied with the open meeting law requirements we reviewed.^{14,15} For example, the Board posted its meeting notice at least 24 hours in advance of the meeting, followed its noticed agenda, and made meeting minutes available for public inspection within 3 working days after the meeting.
- ▶ As reported in our October 2024 performance audit and sunset review, although the Department had developed policies and procedures to help it comply with public records law and recommended practices, it did not always follow its policies and procedures. We recommended that the Department comply with its policies and procedures and provide written notice to requestors when a public records request will take more than 5 business days to fulfill. As of our October 2025 initial followup, the Department was in the process of implementing this recommendation.

However, during this audit, we found that the Department still has not fully implemented this recommendation. Specifically, we found that the Department did not consistently comply with its public records request policies and procedures to provide written notice to requestors when public records requests will take more than 5 business days to fulfill. We judgmentally sampled and reviewed 5 of 169 public records requests the Department received between June 2025 and February 2026.¹⁶ Our review found that for 2 requests that took between 10 and 22 business days to fulfill, the Department did not notify the requestors that it would take more than 5 business days to fulfill the requests, as required by its policies. Additionally, for a third request, the Department notified the requestor that the request would be fulfilled within a week, but the Department did not fulfill the request until 19 business days later when the requestor asked for an update. By not complying with its policies and procedures, the Department could delay the public from accessing public information in a timely manner. In July 2026, the Department developed and reported it implemented changes to its processes for responding to public records requests to address the deficiencies we noted, such as by sending periodic automated messages to requestors, providing system notifications to Department staff to ensure timely communication with requestors, and increasing staff oversight of its public records request process.

¹⁴ A.R.S. §§38-431 through 38-431.09 contain the State's open meeting laws.

¹⁵ We reviewed the Board's compliance with open meeting law requirements for 1 of 2 meetings held between January and June 2026.

¹⁶ We judgmentally selected our sample based on requests that took longer than 5 days to fulfill, according to the Department's tracking system.

Recommendation to the Department

- 26.** Provide 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.

The Department has taken steps to help ensure that complaints within its jurisdiction are timely investigated and resolved. Our October 2024 performance audit and sunset review found that the Department did not always assign responsibility to manufactured housing licensees to correct or repair defects in manufactured homes within 120 days from when a request for resolution is made, as required by federal regulations.^{17,18} The Department reported that some factors outside of its control can cause delays in assigning licensees responsibility for resolving these complaints, and it does not count the days during these delays as part of the 120-day time frame. Additionally, our 2024 review found the Department's policies and procedures did not include time frames for some steps in the manufactured housing complaint-handling process. Therefore, we recommended that the Department assign responsibility to resolve consumer-manufactured housing complaints within 120 days 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. We also recommended the Department 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 housing complaint process. As of our October 2025 initial followup, the Department had not implemented these recommendations.

During this audit, we found that the Department updated its written procedures to specify under what circumstances it can pause the 120-day time frame for resolving consumer-manufactured home complaints. Specifically, its updated procedures indicate that the Department can pause the 120-day time frame upon a request from the consumer complainant due to seasonal residency or based on unforeseen circumstances. The Department submitted these updated policies to HUD in March 2026, and HUD approved them in April 2026. Additionally, the Department updated its manufactured home complaint tracker to initiate the 120-day time frame from the date a request for dispute resolution is made, consistent with federal regulations.¹⁹

¹⁷ 24 CFR 3288.1(a) and 3288.3.

¹⁸ If a defect presents an unreasonable risk of injury, death, or significant loss or damage to valuable personal property, the resolution must be within 60 days of the time a request for dispute resolution is made. In addition, according to 24 CFR 3288.15, only disputes concerning alleged defects that have been reported within 1 year after the date of the first installation of the manufactured home are eligible for resolution through HUD's manufactured home dispute resolution program.

¹⁹ Laws 2025, Ch. 241, §12, added a statutory requirement for the Department to resolve all complaints related to manufactured housing within HUD guidelines and establish a tracking system that monitors complaint-resolution time frames.

Further, the Department updated its written procedures to include time frames for key steps in the manufactured housing dispute resolution process. For example, the updated procedures require Department staff to contact licensees to notify them of complaints within 5 working days of receiving all required documents from the consumer. The procedures also require Department staff to forward complaint response letters to consumers within 5 working days of receiving them from the licensee(s).

Recommendation to the Department

27. Implement its updated procedures for handling manufactured housing complaints, including by ensuring complaints are resolved within 120 days and by monitoring and documenting the resolution of complaints in its tracker.

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

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 housing and factory-built buildings in Arizona appears consistent with regulatory practices in most other states. For example, as of May 2026, we identified 33 states, including Arizona, that partner with HUD to regulate and enforce federal requirements for the installation, manufacturing, and rehabilitation of manufactured housing.²⁰

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

The Department has established key safeguards against possible conflicts of interest. During our October 2024 performance audit and sunset review, the Department updated and implemented its conflict-of-interest policies and procedures to require employees and Board members to submit a conflict-of-interest form annually and created a special file for all substantial interest disclosures. We recommended that the Department continue to implement these conflict-of-interest processes. As of our October 2025 initial followup, the Department had implemented this recommendation.

Our review during this audit found that the Department has continued to implement the annual conflict-of-interest process it developed during the 2024 performance audit and sunset review. Specifically, according to the Department's conflict-of-interest tracker, all 103 Department

²⁰ 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.

employees completed a conflict-of-interest form between January and February 2026. Additionally, our review of a sample of 10 employees found that all 10 had completed a disclosure form, as required by Department policy.²¹ Our review also found that all 7 Board members submitted a conflict-of-interest disclosure form in 2025. Further, the Department established special files for substantial interest disclosures for employees and Board members. Although our review of the special files found that they contained no disclosure forms, the Department reported that it had determined no disclosures of substantial interest had been made.²²

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 to help it more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities.

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, including distributing monies and/or awarding tax credits and providing program oversight 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 10, for more information on the Department's responsibilities). For example, according to the Department's fiscal year 2025 annual report, it assisted with the development of 5,225 units of affordable single and multifamily rental housing in fiscal year 2025 by awarding tax credits from federal and State programs and distributing money from the State Housing Trust Fund. Additionally, the Department's fiscal year 2025 annual report indicates it provided housing assistance for more than 1,000 homeless individuals in rural areas by administering the Balance of State Continuum of Care program and assisted nearly 1,160 low-income homeowners make needed repairs and/or energy efficiency improvements to keep their homes in livable conditions by administering federal programs, such as the Community Development Block Grant program and Weatherization Assistance Program. The Department is also responsible for implementing and administering federal and State regulations for the safety of manufactured housing and factory-built buildings. Further, the

²¹ We reviewed 5 judgmentally sampled forms completed by executive staff and 5 randomly sampled forms completed by the remaining population of 98 Department staff.

²² Our review of 10 employee conflict-of-interest disclosure forms found that 1 employee disclosed having a relative employed by the State, 2 employees disclosed secondary employment, and 2 employees disclosed participating as board members of organizations addressing housing issues in Arizona.

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 2025 annual report, the Department committed more than \$1.6 million in Section 8 Housing Choice Voucher program rental assistance to 328 households in Yavapai County in fiscal year 2025.

The Arizona Auditor General makes 27 recommendations to the Department

Click on a finding, recommendation, or its page number to the right to go directly to that finding or recommendation in the report.

Recommendations to the Department

FINDING 1	11
Complete inspections of LIHTC properties consistent with federal and State requirements, program guidance, and recommended practices, including:	
1. Documenting inspections of all required health and safety standards and property owner record reviews.	22
2. Notifying property representatives of all urgent health and safety violations at the end of the inspection.	22
3. Notifying property owners of all inspection deficiencies promptly and in writing within 30 days of completing an inspection of a LIHTC property.	22
4. Reporting all required property noncompliance to the IRS, as applicable.	22
Update and/or develop and implement additional written policies, procedures, inspection report templates, and/or guidance outlining requirements and guidance for all key steps for inspecting LIHTC properties and conducting property owner record reviews, including:	
5. Documenting inspections of all required health and safety standards and verification of low-income eligibility and allowable rent-rate requirements.	22
6. Notifying property representatives of urgent health and safety violations at the end of the inspection.	22
7. Notifying property owners of any identified noncompliance in writing, including a specific time frame for notifying owners after an inspection.	22
8. Ensuring all violations are corrected, including determining when a reinspection is needed.	23

9. Develop, document, and implement a standardized training program for Department inspectors, including soliciting feedback from inspectors to develop the documented training program. The documented training program should address all key requirements and standards related to LIHTC compliance monitoring and reporting, including those addressed in recommendations 1 through 8. 23
10. Develop and implement written policies and procedures for providing and documenting supervisory oversight of LIHTC property inspections and property owner record reviews to help ensure Department inspectors adhere to all compliance-monitoring requirements and expectations. Once these policies and procedures have been established, the Department should provide training on policies and procedures to Department supervisors. 23

SUNSET FACTORS 55

Continue to implement its written plan for implementing the key practices for providing program oversight consistent with federal and State requirements and recommended practices. Its written plan should continue to be updated as necessary and include steps and deadlines for developing and/or updating and implementing policies, procedures, and/or guidance for:

11. Conducting inspections for all special needs housing, emergency shelter, and affordable housing development projects. 63
12. Verifying that special needs housing and emergency shelter expenses in payment requests are supported and allowable based on special needs housing and emergency shelter program requirements and funding agreements and outlining the supporting documentation that should be submitted with payment requests. 63
13. Ensuring special needs housing and emergency shelter project grantees submit required project reports and Department staff review the reports and hold grantees accountable and take enforcement action when they do not submit required reports and information, such as not approving grantees' payment requests, as necessary. 63
14. Conducting annual risk assessments for special needs housing and emergency shelter projects and providing additional monitoring activities for grantees determined to be higher risk. 64
15. Using information obtained during its application process to determine additional monitoring activities for rental development project grantees determined to be higher risk. 64

- 16.** Continue to require program staff to provide frequent and regular reports to the Department director on their progress implementing the Department’s written plan outlined in recommendations 11 through 15. **64**
- 17.** Continue to implement a process for regular reporting on and review of key oversight metrics by Department leadership to ensure the sustained implementation of program oversight practices outlined in recommendations 11 through 15. **64**
- 18.** Evaluate its oversight processes for all housing programs and align them with the key oversight practices outlined in our October 2024 performance audit, including establishing processes for conducting inspections, reviewing payment requests, requiring reports, and conducting risk assessments. **64**
- 19.** Provide periodic training to all relevant staff on the Department’s oversight policies, procedures, guidance, and requirements, including providing training to new staff. As part of its training, the Department should explicitly notify staff that they are required to follow policies and procedures for reviewing payment requests. **64**
- 20.** Continue its review of approved and paid payment requests since 2021, including obtaining and reviewing adequate supporting documentation demonstrating grantees incurred allowable program expenses to identify unallowable payments made to grantees and recover those monies. **64**
- 21.** Continue to implement a process to systematically track its permanent supportive housing expenditures and develop and implement processes for establishing output and outcome measures that are specific to permanent supportive housing for Department programs with permanent supportive housing goals. **64**
- 22.** Revise and implement its comprehensive performance-measurement system procedures to include processes for tracking, evaluating, and establishing annual measurable goals, performance benchmarks, and measurable outcomes for its programs and Department-wide. **64**
- 23.** Conduct 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. **64**
- 24.** Continue to implement its policies and procedures for processing wire transfers, and provide training to all relevant employees on its wire transfer policies and procedures. **65**

25. Continue with its efforts to perform a cost-study analysis to help ensure the fees the Board establishes are commensurate with the Department's regulatory costs.	65
26. Provide written notice to requestors when a public records request will take more than 5 business days to fulfill.	68
27. Implement its updated procedures for handling manufactured housing complaints, including by ensuring complaints are resolved within 120 days and by monitoring and documenting the resolution of complaints in its tracker.	69

Department's LIHTC and STC awards made in calendar years 2020 through 2025

In calendar years 2020 through 2025, the Department awarded approximately \$4.3 billion in tax credits through the LIHTC and STC programs, including:^{1,2}

- ▶ Nearly \$1.6 billion in federal and State 9% tax credits for the development of 5,234 housing units across 78 projects, as seen in Table 5, pages a-2 through a-9.
- ▶ More than \$2.7 billion in federal and State 4% tax credits for the development of 16,315 housing units across 91 projects, as seen in Table 6, pages a-10 through a-18.

See Questions and Answers, pages 25 through 30, for more information about 9% and 4% tax credits.

¹ A.R.S. §41-3954 authorized the STC program in 2021 and established its sunset date on December 31, 2025. In calendar years 2022 through 2025, the Department awarded approximately \$15.8 million in annual State tax credits to 16 projects, which equate to a total of approximately \$158 million in State tax credits over 10 years.

² The amount of tax credits reported is the total amount of tax credits that can be claimed for the 10-year period.

Table 5**Department awarded approximately \$1.6 billion in federal and State 9% tax credits**

Calendar year 2020 through 2025

Project name	Developer	County ¹	LIHTC units	Development costs ²	Total tax credit for 10-year period ³	Total tax credit for 10-year period per unit
2020						
25th & Bell Apartments	25th & Bell LIHTC, LLC	Maricopa	53	\$11,582,190	\$8,099,200	\$152,815
Birdsong Phoenix	Birdsong Phoenix, LLC	Maricopa	54	27,104,768	20,000,000	370,370
Casa del Sol II	CDS Two, LP	Cochise	80	15,326,782	13,044,770	163,060
CDB Valley View Apartments	CDB Valley View Apartments, LP	Yuma	99	21,988,649	19,900,000	201,010
Cielo Apartments	Cielo Housing Development, LP	Maricopa	80	22,391,996	17,265,610	215,820
Gateway Apartments	Gateway Apartments, LP	Pima	119	23,778,872	18,000,000	151,261
Harmony at the Park One	Harmony at the Park One, LLC	Maricopa	85	28,537,500	20,000,000	235,294
Hillcrest Villas	Avondale 84, LLC	Maricopa	84	20,427,297	15,738,680	187,365
Newsom Village	UMOM Housing VII, LLC	Maricopa	60	16,747,821	12,609,450	210,158
Pascua Yaqui Homes VII	Pascua Yaqui #7, LLC	Pima	50	19,595,413	18,552,920	371,058
San Francisco Square Apartments	FSL Village on Humphreys Flagstaff 2019, LP	Coconino	70	23,012,531	20,000,000	285,714
Sunland Flats	TWG Phoenix, LP	Maricopa	90	20,339,024	15,496,600	172,184
Trellis @ Mission	Mission Housing, LP	Maricopa	43	10,779,540	7,224,820	168,019
2020 Total			967	\$261,612,383	\$205,932,050	

 Developments that received both federal and State tax credits

Table 5 continued

Project name	Developer	County ¹	LIHTC units	Development costs ²	Total tax credit for 10-year period ³	Total tax credit for 10-year period per unit
2021 continued						
9 South	UMOM Housing 8, LLC	Maricopa	60	\$17,644,642	\$12,422,910	\$207,049
Acacia Heights II Apartments	Acacia Heights II, LLC	Maricopa	57	\$21,472,994	\$15,500,000	\$271,930
Mustang Villas	Mustang Villas, LLC	Maricopa	60	\$17,580,478	\$12,886,970	\$214,783
Newport at the Rodeo	Newport Rodeo, LP	Maricopa	77	\$24,722,003	\$17,292,050	\$224,572
Norton Circle	Norton C, LLC	Maricopa	100	\$26,278,516	\$19,290,000	\$192,900
Pascua Yaqui Homes VIII ⁴	Pascua Yaqui #8, LLC	Pima	27	\$9,629,252	\$10,210,000	\$378,148
Rehoboth Place II	Rehoboth Place II, LLC	Maricopa	66	\$16,653,222	\$11,657,410	\$176,627
Sunset Vista Estates	Sunset Vista Estates, LP	Pinal	94	\$24,675,003	\$20,000,000	\$212,766
The Cove Apartments	DC Apartments, LLC	Maricopa	88	\$24,189,113	\$16,950,000	\$192,614
The Moreland I	ML I Housing, LLC	Maricopa	131	\$35,688,552	\$20,000,000	\$152,672
The Reservation at Thunderbird	Reserve at Thunderbird, LP	Maricopa	98	\$31,123,088	\$20,000,000	\$204,082
The Sonoran	Yuma Sonoran, LLC	Yuma	84	\$21,861,915	\$18,570,000	\$221,071
The Villas on Lake Mary	The Villas on Lake Mary, LLC	Coconino	76	\$24,623,874	\$20,000,000	\$263,158
TOKA Homes V ⁵	TOKA #5, LP	Pima	30	\$14,533,214	\$12,284,030	\$409,468
2021 Total			1,048	\$310,675,866	\$227,063,370	

 Developments that received both federal and State tax credits

Table 5 continued

Project name	Developer	County ¹	LIHTC units	Development costs ²	Total tax credit for 10-year period ³	Total tax credit for 10-year period per unit
2022						
Acacia Heights III	Acacia Heights III, LLC	Maricopa	68	\$25,513,872	\$22,665,750	\$333,320
Casa de Paz Fillmore	Casa de Paz Fillmore Housing Partners, LP	Maricopa	32	14,738,821	12,966,380	405,199
Desert Sage Apts	Desert Sage Apartments, LLC	Maricopa	78	18,626,016	14,250,000	182,692
Garfield II	Garfield Veterans Housing II, LLC	Maricopa	60	24,900,215	23,344,690	389,078
Harmony at the Park III	Harmony at the Park Three, LLC	Maricopa	53	31,480,074	20,058,120	378,455
Havasupai Apartments ⁴	Havasupai Apartments, LLC	Mohave	28	9,198,273	9,662,570	345,092
Heritage Senior Apartments	GEM Heritage, LLC	Maricopa	99	26,641,064	20,800,000	210,101
Hill Street School ^{4,6}	Hill Street School, LLC	Gila	56	20,647,611	24,941,880	445,391
Hualapai LIHTC #13	Hualapai LIHTC #1	Mohave	29	13,236,144	14,955,860	515,719
Milagro on Oracle ⁴	Milagro on Oracle, LLC	Pima	63	19,761,942	20,736,770	329,155
Osborn Pointe	Osborn Pointe, LP	Maricopa	48	15,433,159	15,060,120	313,753
Pascua Yaqui Homes IX ⁷	Pascua Yaqui #9, LLC	Pima	50	25,325,103	25,000,000	500,000
The Reserve at Thunderbird II	Reserve at Thunderbird II, LP	Maricopa	78	44,681,813	25,000,000	320,513
Verde Plaza	Verde Plaza Associates of Cottonwood, LLC	Yavapai	69	26,166,374	25,000,000	362,319

Developments that received both federal and State tax credits

Table 5 continued

Project name	Developer	County ¹	LIHTC units	Development costs ²	Total tax credit for 10-year period ³	Total tax credit for 10-year period per unit
2022 continued						
View Point II ^{4,8}	View Point II/Prescott Valley, LP	Yavapai	72	28,075,598	30,000,000	454,545
Whispering Sands Apts II	Whispering Sands Apartments II, LLC	Coconino	54	19,247,939	16,373,080	303,205
2022 Total			931	\$363,674,018	\$320,815,220	
2023						
Belvedere Terrace	Belvedere Terrace, LP	Pima	72	\$26,037,710	\$25,000,000	\$347,222
Catalina Square	Catalina Square Housing Partners, LP	Yuma	100	35,658,763	25,000,000	250,000
Desert Dove Apartments ⁴	Desert Dove Apartments, LP	Pima	62	24,366,357	25,000,000	403,226
Fort Whipple Quarters ⁴	Fort Whipple Quarters, Inc	Yavapai	23	9,934,804	10,000,000	434,783
Granite Point Apartments	Granite Point Apartments, LLC	Yavapai	66	16,375,025	15,300,000	231,818
La Victoria Commons	La Victoria Commons, LP	Maricopa	104	33,459,484	25,000,000	240,385
Miami Inspiration Housing ^{4,9}	CPLC Rosed Road LIHTC	Gila	40	19,673,116	26,250,000	656,250
Pascua Yaqui Homes X ¹⁰	Pascua Yaqui #10, LLC	Pima	45	33,753,059	25,000,000	555,556
Phoenix Scholar House	Phoenix Scholar House I, LLC	Maricopa	56	26,543,643	24,657,380	440,310
Sidney P Osborn One	Sidney P Osborn One, LLC	Maricopa	70	39,871,717	25,000,000	357,143
Sunland Terrace ⁴	Sunland Terrace Housing Partners, LP	Maricopa	80	28,725,362	24,318,220	303,978

Developments that received both federal and State tax credits

Table 5 continued

Project name	Developer	County ¹	LIHTC units	Development costs ²	Total tax credit for 10-year period ³	Total tax credit for 10-year period per unit
2023 continued						
Sycamore Vista Phase I ¹¹	Sycamore Vista, LP	Yavapai	80	33,773,944	30,000,000	375,000
The Abbot ⁴	CLEAR21, LLC	Mohave	66	22,804,044	24,961,380	378,203
Vistara ⁴	Vistara Partners, LLC	Yuma	80	23,807,850	25,000,000	312,500
West Point Apartments II	West Point Apartments II, LP	Pima	84	27,588,910	25,000,000	297,619
Yavapai Apache Homes VIII ^{4,12}	Yavapai-Apache Nation #8, LP	Yavapai	39	21,779,132	25,000,000	641,026
2023 Total			1,067	\$424,152,920	\$380,486,980	
2024						
Casa del Pueblo Senior Apartments	CPLC South Liberty LIHTC, LLC	Pima	96	\$13,412,787	\$13,239,280	\$137,909
Garfield III	Garfield Veterans Housing III	Maricopa	60	28,338,340	25,000,000	416,667
Green Valley Apartments II ^{4,13,14}	Green Valley II of Payson, LLC	Gila	39	21,813,139	28,291,500	725,423
Rincon Manor	Rincon Manor, LP	Pima	84	26,863,175	25,000,000	297,619
Sidney P Osborn Two	Sidney P Osborn Two, LLC	Maricopa	76	45,397,953	25,000,000	328,947
Sugar Hill on Stone ⁴	Sugar Hill on Stone, LLC	Pima	66	24,681,446	25,000,000	378,788
Sycamore Vista Phase II ^{15,16}	Sycamore Vista II, LP	Yavapai	60	32,198,645	30,000,000	500,000
TOKA Homes VI ^{4,17}	TOKA #6, LP	Pima	30	22,670,287	25,000,000	833,333

Developments that received both federal and State tax credits

Table 5 continued

Project name	Developer	County ¹	LIHTC units	Development costs ²	Total tax credit for 10-year period ³	Total tax credit for 10-year period per unit
2024 continued						
Vistara II ⁴	Vistara II Partners, LLC	Yuma	76	23,545,735	25,000,000	328,947
Yavapai-Apache Homes IX ^{4,18}	Yavapai-Apache Nation #9, LP	Yavapai	38	21,942,081	25,000,000	657,895
2024 Total			625	\$260,863,588	\$246,530,780	
2025						
Amazon Flats ⁴	Amazon Flats, LLC	Pima	59	\$24,668,999	\$25,000,000	\$423,729
Casa Grande - Phase One Apartments ^{4,19}	Casa Grande RR One, LLC	Pinal	64	24,791,299	30,000,000	468,750
Northern Commons Apartments	Northern Commons Apartments, LLC	Maricopa	60	29,432,504	25,000,000	416,667
Shasta Apartments	Shasta Apartments, LLC	Pima	100	27,411,927	25,000,000	250,000
The Granville	Granville Senior, LP	Maricopa	152	47,260,837	25,000,000	164,474
TOKA Homes VII ²⁰	TOKA #7, LP	Pima	32	25,510,540	25,000,000	781,250
TOKA Homes VIII ²¹	TOKA #8, LP	Pima	12	10,831,278	10,000,000	833,333
Vistara III ⁴	Vistara III Partners, LLC	Yuma	80	24,244,050	25,000,000	312,500
Yavapai-Apache Homes X ^{4,22}	Yavapai-Apache Nation #10, LP	Yavapai	37	22,052,780	25,000,000	675,676
2025 Total			596	\$236,204,214	\$215,000,000	

Developments that received both federal and State tax credits

Table 5 continued

- ¹ The Department's QAP defines Maricopa and Pima Counties as metropolitan/urban counties and the remaining 13 Arizona counties as rural counties.
- ² The development costs for a project are outlined in the developer's application and can include construction costs, such as building materials and labor, and architecture and engineering fees. The Department reviews the development costs as part of its application-review process and requires the developer to submit a final certification of costs conducted by an independent auditor. See Questions and Answers, pages 31 through 34, for more information on the Department's application-review process.
- ³ Federal and state low-income housing tax credits reduce a developer's tax liability for a 10-year period. Developers can claim tax credits in equal amounts each year for 10 years after the property is placed into service. The amount of tax credits reported is the total amount of credits that the developer can claim for a 10-year period.
- ⁴ The Department reported that it awarded tax credits for this project for an amount greater than the development costs because the project is in a HUD designated area and/or the project required the additional tax credit to be financially feasible (see Questions and Answers, pages 31 through 34, for information on the Department's process for assessing the financial feasibility of a project). 26 USC 42(d)(5)(B) allows the Department to calculate a tax credit award using up to 130% of the eligible development costs for projects in areas designated by HUD as hard-to-develop areas or a qualified census tract or if the Department determines that a tax credit award that exceeds the development cost is needed for a project to be financially feasible.
- ⁵ According to the Department, the development costs per unit were higher for this project for various reasons, and as a result, the awarded tax credits per unit were higher. The Department reported that the Tribal reservation location required additional utility extensions, infrastructure, and unique regulatory/logistical costs. Additionally, the Department reported that projects with a smaller number of units lose economies of scale. Lastly, according to the Department, the project had a high number of units with 3 or more bedrooms, which requires more building area and increases the per unit construction costs.
- ⁶ The amount of tax credits awarded includes \$10 million in State tax credits for a 10-year period.
- ⁷ According to the Department, the development costs per unit were higher for this project for various reasons, and as a result, the awarded tax credits per unit were higher. Specifically, the Department reported that the development costs for the project were higher because the Tribal reservation location required additional utility extensions, infrastructure, and unique regulatory/logistical costs.
- ⁸ The amount of tax credits awarded includes \$10 million in State tax credits for a 10-year period.
- ⁹ The amount of tax credits awarded includes \$8.75 million in State tax credits for a 10-year period.
- ¹⁰ According to the Department, the development costs per unit were higher for this project for various reasons, and as a result, the awarded tax credits per unit were higher. Specifically, the Department reported that the development costs for the project were higher because the Tribal reservation location required additional utility extensions, infrastructure, and unique regulatory/logistical costs.
- ¹¹ The amount of tax credits awarded includes \$10 million in State tax credits for a 10-year period.
- ¹² According to the Department, the development costs per unit were higher for this project for various reasons, and as a result, the awarded tax credits per unit were higher. Specifically, the Department reported that the development costs for the project were higher because the Tribal reservation location required additional utility extensions, infrastructure, and unique regulatory/logistical costs.
- ¹³ The amount of tax credits awarded includes \$9.4305 million in State tax credits for a 10-year period.
- ¹⁴ According to the Department, the development costs per unit were higher because the remote location resulted in higher material freight/delivery costs and higher pay rates for labor. As a result the awarded tax credits per unit were higher.
- ¹⁵ The amount of tax credits awarded includes \$10 million in State tax credits for a 10-year period.
- ¹⁶ According to the Department, the development costs per unit were higher for this project for various reasons, and as a result, the awarded tax credits per unit were higher.
- ¹⁷ According to the Department, the development costs per unit were higher for this project for various reasons, and as a result, the awarded tax credits per unit were higher. The Department reported that the Tribal reservation location required additional utility extensions, infrastructure, and unique regulatory/logistical costs. Additionally, the Department reported that projects with a smaller number of units lose economies of scale. Lastly, according to the Department, the project had a high number of units with 3 or more bedrooms, which requires more building area and increases the per unit construction costs.

Table 5 continued

- 18 According to the Department, the development costs per unit were higher for this project for various reasons, and as a result, the awarded tax credits per unit were higher. The Department reported that the Tribal reservation location required additional utility extensions, infrastructure, and unique regulatory/logistical costs. Additionally, the Department reported that projects with a smaller number of units lose economies of scale. Lastly, according to the Department, the project had a high number of units with 3 or more bedrooms, which requires more building area and increases the per unit construction costs.
- 19 The amount of tax credits awarded includes \$10 million in State tax credits for a 10-year period.
- 20 According to the Department, the development costs per unit were higher for this project for various reasons, and as a result, the awarded tax credits per unit were higher. The Department reported that the Tribal reservation location required additional utility extensions, infrastructure, and unique regulatory/logistical costs. Additionally, the Department reported that projects with a smaller number of units lose economies of scale. Lastly, according to the Department, the project had a high number of units with 3 or more bedrooms, which requires more building area and increases the per unit construction costs.
- 21 According to the Department, the development costs per unit were higher for this project for various reasons, and as a result, the awarded tax credits per unit were higher. The Department reported that the Tribal reservation location required additional utility extensions, infrastructure, and unique regulatory/logistical costs. Additionally, the Department reported that projects with a smaller number of units lose economies of scale. Lastly, according to the Department, the project had a high number of units with 3 or more bedrooms, which requires more building area and increases the per-unit construction costs.
- 22 According to the Department, the development costs per unit were higher for this project for various reasons, and as a result, the awarded tax credits per unit were higher. The Department reported that the Tribal reservation location required additional utility extensions, infrastructure, and unique regulatory/logistical costs. Additionally, the Department reported that projects with a smaller number of units lose economies of scale. Lastly, according to the Department, the project had a high number of units with 3 or more bedrooms, which requires more building area and increases the per unit construction costs.

Source: Auditor General staff analysis of Department published data on LIHTC and STC properties awarded tax credits from calendar years 2020 through 2025.

Table 6**Department awarded approximately \$2.7 billion in federal and State 4% tax credits**

Calendar year 2020 through 2025

Project name	Developer	County ¹	LIHTC units	Development costs ²	Total tax credit for 10-year period ³	Total tax credit for 10-year period per unit
2020						
AZ3 Portfolio	AZ3 Community Partners, LP	Maricopa	170	\$51,169,610	\$14,729,390	\$86,643
Center of Hope	Center of Hope Apartments, LP	Pima	100	13,894,928	3,503,010	35,030
Chandler Village Apartments	LEDG Chandler Village, LP	Maricopa	127	38,473,180	11,922,090	93,875
Foothills Village	FVA, LLC	Maricopa	200	26,350,646	7,946,820	39,734
Kachina Garden Apartments	Kachina Gardens Housing Partners, LP	Navajo	52	11,625,678	3,890,790	74,823
Las Terrazas	DFA Las Terrazas Associates, LP	Santa Cruz	103	13,132,667	5,093,820	49,455
Maricopa Apartments	Maricopa County Housing Partners, LP	Maricopa	216	60,195,125	16,833,960	77,935
Mesquite Terrace	Mesquite Terrace Apartments, LLC	Maricopa	296	60,204,160	21,173,520	71,532
Rio Mercado Apartments	Rio Mercado Partners, LLC	Pima	107	24,650,000	9,530,530	89,070
Silver Birch of Glendale	Glendale AAL, LP	Maricopa	124	27,799,135	8,662,760	69,861
Soluna II	19 Roosevelt Phase 1B, LLC	Maricopa	62	15,281,378	5,447,910	87,870
Talavera Apartments	Talavera Apartments, LLC	Pima	96	16,726,447	5,342,760	55,654

 Developments that received both federal and State tax credits

Table 6 continued

Project name	Developer	County¹	LIHTC units	Development costs²	Total tax credit for 10-year period³	Total tax credit for 10-year period per unit
2020 continued						
Vista Ridge Apartments	Phoenix Leased Housing Associates II, LLLP	Maricopa	308	81,677,019	29,173,710	94,720
Vistabella Apartments	Vistabella Apartments, LLC	Cochise	60	8,726,584	2,403,630	40,061
Western Sun Apartments	Western Sun, LP	Maricopa	60	14,785,021	4,233,490	70,558
2020 Total			2,081	\$464,691,578	\$149,888,190	
2021						
Copa Flats	Maricopa AH, LLLP	Maricopa	312	\$87,331,321	\$40,739,160	\$130,574
Deer Valley Gardens Senior Apartments	Deer Valley Gardens, LP	Maricopa	162	30,559,765	10,873,090	67,118
2021 Total			474	\$117,891,086	\$51,612,250	
2022						
Agave House	Casa Grande AH I, LLLP	Pinal	216	\$79,416,075	\$36,438,310	\$168,696
Aviara Flats	Phoenix Leased Housing Associates III, LLLP	Maricopa	372	127,653,901	61,023,530	164,042
Bethany Glen Apartments	Bethany Glen Community Partners 2, LP	Maricopa	150	68,521,573	28,886,150	192,574
Casa Azure	Phoenix Leased Housing Associates IV, LLLP	Maricopa	196	68,919,643	32,767,950	167,183
Cascade Apartments	CASCADE APARTMENTS, LLC	Pima	70	19,322,130	8,138,200	116,260

Developments that received both federal and State tax credits

Table 6 continued

Project name	Developer	County¹	LIHTC units	Development costs²	Total tax credit for 10-year period³	Total tax credit for 10-year period per unit
2022 continued						
Centerline on Glendale I⁴	Centerline on Glendale, LLC	Maricopa	186	59,653,521	30,000,000	161,290
Centerline on Glendale II⁵	Centerline on Glendale Two, LLC	Maricopa	182	58,706,502	30,000,000	164,835
Cottonwood Ranch Apartments	Cottonwood Ranch Apartments, LP	Pinal	300	139,426,054	66,572,790	221,909
Dahlia Village	South 12th St Owner, LLC	Maricopa	126	45,235,772	20,443,570	162,251
Estrella Springs	Goodyear Leased Housing Associates I, LP	Maricopa	396	143,433,099	87,740,200	221,566
Fort Whipple Veterans Housing	Fort Whipple Veterans Housing, LLC	Yavapai	80	22,340,994	11,617,320	145,217
Glendale Senior Apartments	MHMP 19 Glendale Senior Apartments, LLLP	Maricopa	148	51,917,281	24,600,190	166,218
Harmony at the Park II	Harmony at the Park Two, LLC	Maricopa	102	45,009,838	18,762,970	183,951
Horizon on Villa Apartments⁶	Gorman & Company, LLC	Maricopa	106	38,783,823	22,739,750	214,526
Ironwood Ranch Apartments	Ironwood Ranch Apartments, LP	Pinal	252	116,419,670	56,291,510	223,379
Juniper Square	Glendale Leased Housing Associates II, LLLP	Maricopa	221	100,510,158	48,715,830	220,434
La Esperanza Terrace	UMOM Housing 9, LLC	Maricopa	98	36,023,968	15,629,750	159,487
Lariat Village⁷	Lariat Village Propco, LP	Pima	120	44,571,373	30,000,000	250,000

Developments that received both federal and State tax credits

Table 6 continued

Project name	Developer	County¹	LIHTC units	Development costs²	Total tax credit for 10-year period³	Total tax credit for 10-year period per unit
2022 continued						
Mesa Vista	Roers Casa Grande Apartments Owner, LLC	Pinal	200	79,456,445	37,590,900	187,955
Overland Flats	Overland Flats Apartment, LLC	Maricopa	200	65,751,334	30,548,600	152,743
Pueblo Apartments	CPLC Broadway and Central LIHTC, LLC	Maricopa	161	46,567,095	21,421,980	133,056
Residences at Falcon Park	Falon Park, LLC	Maricopa	192	44,627,122	21,791,370	113,497
Salt River Flats	Salt River Flats, LLC	Maricopa	192	59,987,406	27,520,110	143,334
Sleepy Hollow Estates	Sleepy Hollow Estates, LP	Pima	44	21,714,026	9,803,430	222,805
Solana Villas	Roers Buckeye Downtown, LP	Maricopa	200	70,789,643	31,730,690	158,653
Steeple Chase	Steeple Chase Preservation Apartments, LLC	Maricopa	110	29,676,710	10,825,510	98,414
Suncrest Vista	Goodyear Leased Housing Associates II, LP	Maricopa	262	93,009,179	54,730,460	208,895
The Safford	Marana Leased Housing I, LLC	Pima	200	92,769,337	42,134,700	210,674
Unity at West Glendale	TWG Glendale, LP	Maricopa	105	21,546,640	10,026,130	95,487
Waterman Senior Apartments	Waterman Senior Apartments, LLC	Maricopa	200	56,963,604	26,240,870	131,204

Developments that received both federal and State tax credits

Table 6 continued

Project name	Developer	County¹	LIHTC units	Development costs²	Total tax credit for 10-year period³	Total tax credit for 10-year period per unit
2022 continued						
Western Winds	MHMP 19 Glendale Senior Apartments, LLLP	Pima	100	17,464,376	6,084,930	60,849
2022 Total			5,487	\$1,966,188,292	\$960,817,700	
2023						
67 Flats	Glendale Leased Housing Associates I, LLLP	Maricopa	384	\$155,124,666	\$73,421,750	\$191,202
Alto Apartments	Roers Maricopa Apartments Owner, LLC	Pinal	200	81,862,594	38,439,350	192,197
Arizona Retirement Home of Scottsdale	ARHS Housing Partners, LP	Maricopa	46	13,656,233	5,347,530	116,251
Arterra	Surprise Leased Housing Associates I, LLLP	Maricopa	388	163,173,904	85,874,800	221,327
Broadway Farms	4201 S 91st Avenue Owner, LLLP	Maricopa	190	77,736,308	35,014,790	184,288
Emory Heights	Phoenix North 17th Avenue, LP	Maricopa	61	23,689,662	10,668,160	174,888
Glendale Apartments	Richman Glendale Senior, LLC	Maricopa	45	19,126,002	9,066,670	201,482
Gunsmoke Ranch Apartments	Gunsmoke Ranch Apartments, LP	Pinal	271	123,354,314	55,937,160	206,410
Hacienda Del Rio	Hacienda Senior Housing, LP	Maricopa	146	53,229,367	22,387,260	153,337
Helen Drake Village⁸	Alex Popovic Richman Helen Drake Village, LLC	Maricopa	80	25,443,000	22,356,550	279,457

Developments that received both federal and State tax credits

Table 6 continued

Project name	Developer	County¹	LIHTC units	Development costs²	Total tax credit for 10-year period³	Total tax credit for 10-year period per unit
2023 continued						
La Victoria Commons	La Victoria Commons 4% LIHTC, LP	Maricopa	52	14,381,775	6,959,200	133,831
Orchard Springs	Surprise Leased Housing Associates II, LLLP	Maricopa	211	84,893,620	30,329,590	143,742
Phoenix Manor	Reliant - Phoenix Manor, LLC	Maricopa	450	119,727,015	47,056,900	104,571
Saddleback Village at Stonegate	Maricopa Leased Housing Associates I, LLLP	Maricopa	215	102,365,746	46,346,780	215,566
Sierra on 66	Roers Flagstaff Apartment Owner, LLC	Coconino	221	93,713,957	42,274,570	191,288
The Villas on Shelby	The Villas on Shelby, LLC	Yavapai	30	15,407,340	7,563,780	252,126
Tucson House	Sally Schwenn, Gorman & Company, LTC	Pima	358	159,013,470	69,105,400	193,032
Villas on McQueen⁹	Villas on McQueen, LLC	Maricopa	157	57,163,779	30,000,000	191,083
2023 Total			3,505	\$1,383,062,752	\$638,150,240	
2024						
Acacia at Youngtown Phase I	Acacia One Owner, LLC	Maricopa	192	\$69,293,943	\$36,032,850	\$187,671
Acacia at Youngtown Phase II¹⁰	Acacia Two Owner, LLC	Maricopa	120	40,491,338	30,000,000	250,000
Alma Apartments	IH Casa Grande Apartments Owner II, LLC	Pinal	216	90,395,157	41,876,260	193,872

Developments that received both federal and State tax credits

Table 6 continued

Project name	Developer	County¹	LIHTC units	Development costs²	Total tax credit for 10-year period³	Total tax credit for 10-year period per unit
2024 continued						
Butterfield Commons	Butterfield Commons Apartments, LLC	Pinal	174	61,954,788	28,169,760	161,895
Calypso at Ballpark Village	IH Maricopa Apartments Owner II, LLC	Maricopa	203	72,340,207	37,616,910	185,305
Diamond View at Ballpark Village	Lincoln Avenue Communities	Maricopa	300	139,498,334	63,294,965	210,983
Emberwood Apartments	IH Casa Grande Apartments Owner II, LLC	Pinal	176	55,684,032	28,955,700	164,521
Jesse Owens Parkway	Jesse Owens Parkway Apartments, LLC	Maricopa	236	89,010,530	38,003,990	161,034
Memorial Towers	Memorial Towers (TC2) Senior Housing, LP	Maricopa	152	64,548,920	27,133,550	178,510
Tecoma Square	San Tan Valley AH I, LLLP	Pinal	252	89,723,509	46,656,220	185,144
The Flats at Ballpark Village	Lincoln Avenue Communities	Maricopa	194	100,823,688	45,519,100	234,635
The Verge at Ballpark Village	Goodyear Leased Housing Associates IV, LP	Maricopa	400	176,752,690	81,414,190	203,535
Viarta Apartments	IH Maricopa Apartments Owner II, LLC	Maricopa	216	75,133,026	39,069,170	180,876
2024 Total			2,831	\$1,125,650,162	\$543,742,665	

 Developments that received both federal and State tax credits

Table 6 continued

Project name	Developer	County¹	LIHTC units	Development costs²	Total tax credit for 10-year period³	Total tax credit for 10-year period per unit
2025						
Allasso Ranch	Surprise Leased Housing Associates III, LLLP	Maricopa	304	\$155,731,283	\$69,818,890	\$229,667
Arizona Retirement Home of Scottsdale II	ARHS II Housing Partners, LP	Maricopa	46	7,091,495	3,261,980	70,913
Buckeye Family	Buckeye Leased Housing Associates IV, LLLP	Maricopa	200	105,789,913	46,900,380	234,502
Eloy Geo Housing¹¹	SMDB LIH 1, LLC	Pinal	30	25,476,684	9,557,520	318,584
Everstone North	IH Phoenix Apartments Owner I, LLC	Maricopa	228	90,729,964	40,708,480	178,546
Everstone South	IH Phoenix Apartments Owner II, LLC	Maricopa	180	74,145,509	32,879,930	182,666
Marbella Ranch Phase I	Marbella Ranch AH I, LLLP	Maricopa	144	60,028,821	26,820,080	186,251
Salt River Flats 2	SRF 2 Owner, LLC	Maricopa	168	65,624,297	29,176,120	173,667
Tanner Terrace	Tanner Terrace Community Partners, LP	Maricopa	155	53,370,068	22,042,690	142,211
The Moreland I	ML 1 Housing, LLC	Maricopa	132	71,138,346	33,586,360	254,442
Townhomes on Earley	Casa Grande Leased Housing Associates I, LLLP	Pinal	278	126,732,853	57,820,180	207,986
Wild Rose Flats	Wild Rose Owner, LLC	Maricopa	72	31,621,835	13,842,100	192,251
2025 Total			1,937	\$867,481,068	\$386,414,710	

Developments that received both federal and State tax credits

Table 6 continued

- ¹ The Department's QAP defines Maricopa and Pima Counties as metropolitan/urban counties and the remaining 13 Arizona counties as rural counties.
- ² The development costs for a project are outlined in the developer's application and can include construction costs, such as building materials and labor, and architecture and engineering fees. The Department reviews the development costs as part of its application-review process and requires the developer to submit a final certification of costs conducted by an independent auditor. See Questions and Answers, pages 31 through 34, for more information on the Department's application-review process.
- ³ Federal and state low-income housing tax credits reduce a developer's tax liability for a 10-year period. Developers can claim tax credits in equal amounts each year for 10 years after the property is placed into service. The amount of tax credits reported is the total amount of credits that the developer can claim for a 10-year period.
- ⁴ The amount of tax credits awarded includes \$10 million in State tax credits for a 10-year period.
- ⁵ The amount of tax credits awarded includes \$10 million in State tax credits for a 10-year period.
- ⁶ The amount of tax credits awarded includes \$10 million in State tax credits for a 10-year period.
- ⁷ The amount of tax credits awarded includes \$10 million in State tax credits for a 10-year period.
- ⁸ The amount of tax credits awarded includes \$10 million in State tax credits for a 10-year period.
- ⁹ The amount of tax credits awarded includes \$10 million in State tax credits for a 10-year period.
- ¹⁰ The amount of tax credits awarded includes \$10 million in State tax credits for a 10-year period.
- ¹¹ According to the Department, the development costs per unit were higher for this project because projects with a smaller number of units lose economies of scale; as a result of the higher development costs, the awarded tax credits per unit were higher.

Source: Auditor General staff analysis of Department published data on LIHTC and STC properties awarded tax credits from calendar years 2020 through 2025.

Prior recommendations

Department is in process of implementing all 14 recommendations from the first report we issued as part of the Department’s 2024 performance audit and sunset review

Our October 2024 Arizona Department of Housing performance audit on its oversight of selected housing programs found that the Department inadequately oversaw affordable housing projects we reviewed, including paying grantees more than \$8.1 million without verifying that expenses were adequately supported and for allowable purposes such as delivering needed services to individuals experiencing or at risk of homelessness and not conducting required site inspections to ensure those individuals had safe and sanitary housing.¹ We made 14 recommendations to the Department to address these issues.

During this audit, we followed up on the 14 outstanding recommendations the Department had not fully implemented as of our initial followup.

Department’s status in implementing 14 recommendations

Implementation status	Number of recommendations
N/A No longer applicable—superseded by new recommendation	14 recommendations

The 14 recommendations are no longer applicable because during this audit, we identified additional steps the Department should take to fully implement the recommendations, resulting in new and modified recommendations in Sunset Factor 2 that incorporate these 14 recommendations (see pages 55 through 65).

¹ See Arizona Auditor General report 24-113 A Performance Audit of the Arizona Department of Housing—Oversight of Selected Housing Programs.

Recommendations to the Department

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

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

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

► Status: **No longer applicable—superseded by new recommendation.**

As of our June 2025 initial followup, the Department had developed a draft written plan for implementing key program oversight practices. During our audit, we found that the Department had finalized and begun implementing its written plan in September 2025. The Department's written plan outlines specific action steps it is taking to implement recommendations 1a through 1i, including steps and anticipated completion dates for developing and implementing updated policies and procedures.

As of April 2026, the Department reported it has completed inspections of 16 special needs housing properties since our October 2024 audit and plans to complete an additional 5 inspections by late May. Additionally, in January 2026, the Department implemented a monthly inspection-tracking tool that staff are required to provide to the Department's special needs housing manager to provide additional oversight of its inspection process. Lastly, the Department finalized revisions to its inspection procedures in June 2026. We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 63, recommendation 11). Therefore, this recommendation is no longer applicable.

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

► Status: **No longer applicable—superseded by new recommendation.**

Our June 2025 initial followup found that the Department had revised its special needs housing procedures to help ensure staff verified expenses included in payment requests were supported and allowable prior to approving payments to project grantees. The Department reported that it anticipated finalizing its procedures in October 2025.

During this audit, we found that the Department was continuing to update its special needs housing standard operating procedures while it developed additional oversight processes to address other recommendations, such as processes to ensure grantees submit required project reports (see recommendation 1c for information on the Department's new process for ensuring grantees submit required project reports). In June 2026, the Department finalized its special needs housing standard operating procedures.

Additionally, as discussed in recommendation 5, the Department is in the process of conducting a review of payment requests it approved and paid since fiscal year 2021 to identify any unallowable payments made to grantees and recover those monies. Our review of 4 payment requests that the Department reviewed found that the Department did not identify all instances when additional supporting documentation was needed to verify that expenses were allowable (see recommendation 5, page b-8, for additional information on the Department's review of approved and paid payment requests).

We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 63, recommendation 12). Therefore, this recommendation is no longer applicable.

- c.** Ensuring special needs housing and emergency shelter project grantees submit required project reports and Department staff review the reports to help ensure grantees are providing the services required by their funding agreements and to identify grantees that need assistance or training. Additionally, Department staff should hold grantees accountable and take enforcement action when they do not submit required reports and information, such as not approving grantees' payment requests, as necessary.

► Status: **No longer applicable—superseded by new recommendation.**

The Department has developed a project report-tracking tool that its staff are required to use to ensure project reports are received from grantees. Additionally, the Department updated its procedures to include requirements for staff to complete and submit the tracker to Department leadership for review.

The Department has also developed a new payment request process for special needs housing and emergency shelter project grantees that requires them to submit project reports with all payment requests for the payment request to be approved and paid. Although the Department has updated its procedures to include its new process and it began implementing its new process in January 2026, it did not finalize its procedures until the end of June 2026. We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 63, recommendation 13). Therefore, this recommendation is no longer applicable.

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

► Status: **No longer applicable—superseded by new recommendation.**

Our initial followup found that the Department developed a risk-assessment tool and updated its procedures to include steps for conducting risk assessments when reviewing grantee applications and requiring additional monitoring for grantees determined to be higher risk. The Department anticipated finalizing its procedures and implementing its new risk-assessment process in July 2025.

During our audit, we found that the Department has not yet implemented its risk-assessment process because the application process for Continuum of Care grant monies has been suspended because of a federal court order. During the suspension, the court order provides automatic grant renewals for grantees. We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 64, recommendation 14). Therefore, this recommendation is no longer applicable.

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

► Status: **No longer applicable—superseded by new recommendation.**

Our initial followup found that the Department developed draft procedures that include housing inspection standards and time frames for rental housing development and emergency shelter projects and reported that it anticipated finalizing its procedures in December 2025.

During this audit, we found that the Department finalized its procedures for inspections of rental housing development projects and plans to implement them along with its new risk-assessment process for projects awarded tax credits in June 2026. Additionally, we found that the Department had continued to revise its procedures for emergency shelter projects as it revised/developed its oversight processes included in this and other recommendations. As a result, the Department did not finalize its procedures for emergency shelter projects until June 2026. We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 63, recommendation 11). Therefore, this recommendation is no longer applicable.

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

► Status: **No longer applicable—superseded by new recommendation.**

See explanation for recommendation 1b.

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

▶ Status: **No longer applicable—superseded by new recommendation.**

See explanation for recommendation 1c.

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

▶ Status: **No longer applicable—superseded by new recommendation.**

Our initial followup found that the Department developed draft procedures for conducting risk assessments when reviewing grantee applications and requiring additional monitoring for grantees determined to be higher risk.

During this audit, we found that the Department has not implemented its risk-assessment process because the Department has not received an appropriation for the Homeless Shelter and Services Fund since fiscal year 2024. According to the Department, if it receives an additional appropriation for the fund or a special line item appropriation for emergency shelter projects in the future, it will follow its risk-assessment procedures (see recommendation 1d for information on this risk-assessment process). We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 64, recommendation 14). Therefore, this recommendation is no longer applicable.

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

▶ Status: **No longer applicable—superseded by new recommendation.**

Our initial followup found that the Department developed a draft risk-assessment tool and reported that related procedures were being developed and would be finalized around December 2025.

During this audit, we found that the Department has finalized its risk-assessment tool and procedures for using information obtained during its application process to conduct risk assessments of rental housing development projects and requiring additional monitoring for grantees determined to be higher risk. The Department reported it implemented its risk assessment process when it completed its review of LIHTC applications in June 2026. We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 64, recommendation 15). Therefore, this recommendation is no longer applicable.

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

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

► Status: **No longer applicable—superseded by new recommendation.**

Our initial followup found that the Department director and staff had held monthly meetings to provide updates on the progress made in implementing key oversight practices. Additionally, the Department had identified oversight areas that it planned to develop performance metrics for and provide regular reports on to Department leadership.

Since our initial followup, the Department has continued to hold meetings between the Department director and program staff. During these meetings, staff provide updates on their progress implementing steps from the Department's written plan for implementing key oversight practices, including which staff members are responsible for implementing the various steps in the plan, and overall anticipated dates of implementation for the various recommendations. Additionally, the Department identified key oversight areas, such as inspections, performance reports, and risk assessments, and developed reporting templates for program staff to use to report various metrics to Department leadership on each of the key oversight areas. The Department implemented these reporting templates in January 2026 to compile oversight data that it can use to establish a baseline for tracking future program oversight performance.

However, as previously discussed, the Department is in the process of developing and/or implementing key oversight practices and therefore will need to continue to report to the Director on its progress until these processes are implemented and on key oversight metrics to help sustain implementation thereafter. We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 64, recommendations 16 and 17). Therefore, this recommendation is no longer applicable.

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

► Status: **No longer applicable—superseded by new recommendation.**

See explanation for recommendation 2a.

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

► Status: **No longer applicable—superseded by new recommendation.**

As reported above, the Department has developed procedures to implement key program oversight practices for its affordable housing development projects, which include projects awarded federal and State low-income housing tax credits. However, in December 2025, prior to the Department implementing its new procedures, the State low-income housing tax credit program sunsetted. The Department reported it started implementing its new procedures for its other affordable housing development projects when it completed its review of LIHTC applications in June 2026.

Additionally, the Department provided its standard operating procedures for its Community Development Block Grant projects. The Department drafted updates to its Community Development Block Grant procedures to ensure it aligns with key oversight practices, including requirements for inspections, verifying that expenses included in payment requests are supported and allowable, reviewing and monitoring project reports, and conducting risk assessments. According to the Department, it finalized these updates to its procedures and began implementing them in June 2026. We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 64, recommendation 18). Therefore, this recommendation is no longer applicable.

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

► Status: **No longer applicable—superseded by new recommendation.**

The Department provided documentation of training it developed related to the Department's oversight policies, procedures, guidance, and requirements and a list of attendees for the training provided in July 2025. However, since many of the Department's policies and procedures are in draft form, the training will likely need to be updated to reflect these changes, and its staff who have already been trained will need to be trained on any changes. Additionally, the Department's training materials did not explicitly tell staff that they are required to follow policies and procedures for reviewing payment requests.

The Department reported that it will be providing an updated training on its oversight policies and procedures in July 2026 with training materials that have been updated to include that staff receiving the training are required to follow the Department's policies and procedures for reviewing payment requests. We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 64, recommendation 19). Therefore, this recommendation is no longer applicable.

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

▶ Status: **No longer applicable—superseded by new recommendation.**

To conduct a review of approved and paid payment requests since 2021, the Department reported it is following a risk-based approach by evaluating 1 payment request per grantee, per quarter since 2021. If the Department identifies unallowable costs, the Department will review all payment requests submitted by that grantee.

During this audit, we found that the Department had continued its review of approved and paid payment requests and was following a risk-based approach by evaluating 1 approved and paid payment request per special needs housing grantee, per quarter, since fiscal year 2021. In January and May 2026, the Department reported on the status of its review of selected payment requests and indicated that its review had not identified improper payments. As of May 2026, the Department's payment request review tracker indicated that it had reviewed 437 of 450 payment requests it had selected for review. The Department reported that as of June 2026 it had reviewed all selected paid payment requests that special needs housing grantees submitted.

However, despite reporting to the Legislature that its review did not identify any improper payments, the Department's review identified the need for additional supporting documentation for some expenses, such as invoices or receipts to support housing assistance expenses, for 251 of the payment requests it reviewed, which would be necessary to verify that it did not improperly pay grantees for unallowable expenses. As of May 2026, the Department had requested additional supporting documentation for 69 of 251 payment requests and had received additional documentation for 36 of them, but had not yet reviewed the additional documentation it received. According to the Department, it plans to request and receive additional supporting documentation for the remaining payment requests by the end of calendar year 2026 and will conduct a further review of all 251 payment requests once it receives additional supporting documentation.

Additionally, our review of 4 payment requests that the Department completed a review of found that the Department did not identify all instances when additional supporting documentation was needed to verify expenses. For example, 1 payment request that the Department had determined had all necessary supporting documentation included supportive service expenses that were not supported with staff time sheets or pay stubs or documentation to demonstrate that it provided required supportive services to program participants.

We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 64, recommendation 20). Therefore, this recommendation is no longer applicable.

Prior recommendations

Department and Board have implemented 4 of 15 outstanding recommendations from the second report we issued as part of the Department’s 2024 performance audit and sunset review

Our October 2024 Arizona Department of Housing performance audit and sunset review found that the Department committed nearly \$1.26 billion toward affordable housing issues in the State in fiscal year 2023 but lacked a comprehensive process to evaluate program performance, limiting its ability to ensure and demonstrate its programs are effectively addressing the State’s housing problems, and failed to develop wire transfer procedures to prevent fraud, resulting in a \$2 million fraudulent transfer.¹ We made 16 recommendations to the Department to address these issues, 2 of which the Department had implemented at the time of our initial followup. We also made 1 recommendation to the Board of Manufactured Housing (Board).

During this audit, we followed up on the 14 outstanding recommendations the Department had not fully implemented and the 1 outstanding recommendation the Board had not fully implemented as of our initial followup.

Department’s status in implementing 14 recommendations

Implementation status	Number of recommendations
 Implemented	3 recommendations
 No longer applicable—superseded by new recommendation	11 recommendations

Board’s status in implementing 1 outstanding recommendation

Implementation status	Number of recommendations
 Implemented	1 recommendation

The Department has implemented 3 recommendations. The remaining 11 recommendations are no longer applicable because during this audit, we identified additional steps the Department should take to fully implement the recommendations, resulting in new and modified recommendations in Sunset Factors that incorporate the remaining 11 recommendations (see Sunset Factor 2, pages 55 through 65, Sunset Factor 5, pages 66 through 68, and Sunset Factor 6, pages 68 through 69). The Board has implemented the 1 recommendation directed to it.

¹ See Arizona Auditor General report 24-114 A Performance Audit and Sunset Review of the Arizona Department of Housing.

Recommendations to the Department

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

1. The Department should develop and implement a formal plan to revise its Balance of State Continuum of Care goals, targets, and review of performance measures and outcomes to include:
 - a. Measurable goals and targets with benchmarks for reviewing desired performance.
 - ▶ Status: **Implemented at 24 months.**

Our October 2024 Department performance audit and sunset review found that the Department had developed a strategic plan for its Balance of State Continuum of Care program, but the plan lacked measurable goals with targets and benchmarks 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. Additionally, we found that the Department had not established time frames for reviewing and updating its strategic plan.

Our initial followup found that the Department developed draft procedures for annually establishing and/or updating the goals and performance measures for its Balance of State Continuum of Care program and for reviewing progress toward those goals throughout the year. Additionally, the Department developed goals with target outcomes and benchmarks for fiscal year 2026.

During this audit, we found that the Department finalized and implemented procedures for establishing goals with target outcomes and benchmarks, monitoring progress toward those goals, and annually updating its goals. For example, for fiscal year 2026, the Department established an outcome to reduce the percent of individuals in emergency shelter or placed in temporary or permanent housing that return to homelessness within 12 months from 12% to 11%.

Additionally, the Department developed a process to review and report on its goals quarterly.² For example, for the quarter ending March 2026, the Department reported it had reached its goal to reduce the percent of individuals placed in emergency shelter or placed in temporary or permanent housing that return to homelessness within 12 months from 12% to 11% and, as of quarter ending June 2026, had further

² In addition to its Balance of State Continuum of Care strategic plan goals, the Department developed 2 Balance of State Continuum of Care goals with performance measures, including outcomes and benchmarks for its comprehensive performance-management system (see Sunset Factors, pages 60 through 62, for more information).

reduced the percent to 10%. As of the quarter ending June 2026, the Department reported that it met 3 of 6 fiscal year 2026 goals.

Specifically, the Department reported that in addition to meeting the goal mentioned above, it met its goals to:

- Reduce the length of time individuals experience homelessness by reducing or maintaining the average length of time in emergency shelter or temporary housing at 90 days or less. As of June 2026, the average length of time in emergency shelter or temporary housing was 90 days.
- Increase housing stability and positive exits by increasing the number of individuals in permanent supportive housing that either remain in permanent supportive housing or exit to permanent housing from 95% to 97%. As of June 2026, the percent of individuals that remained in permanent supportive housing or exited to permanent housing was 97%.

However, the Department reported that it did not meet its goals to:

- Reduce the number of individuals that experience homelessness for the first time by 1%—from 3,777 individuals to 3,740 individuals. As of June 2026, the number of individuals that experienced homelessness for the first time was 3,862.
- Increase the percent of individuals in emergency shelter, temporary housing, or rapid rehousing that experience positive exits, such as exits to permanent housing from 28% to 30%. As of June 2026, the percent of individuals that experienced positive exits from emergency shelter, temporary housing, or rapid rehousing was 29%.
- Increase the percent of individuals in the Balance of State Continuum of Care who increased their income from 23% to 25%. As of June 2026, 24% of individuals in the Balance of State Continuum of Care increased their income.

Lastly, the Department reports on its progress toward its goals quarterly at Advisory Board meetings. In April 2026, the Department met with the Advisory Board to propose updated and/or new goals and performance measures for fiscal year 2027.

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

▶ Status: **Implemented at 24 months.**

See explanation for recommendation 1a.

c. Time frame for updating goals.

▶ Status: **Implemented at 24 months.**

See explanation for recommendation 1a.

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

► Status: **No longer applicable—superseded by new recommendation.**

As discussed in our initial followup, the Department developed a spreadsheet to track expenditures for its permanent supportive housing projects. However, it had not included related output or outcome measures as part of its tracking.

During this audit, we found that the Department continued to track expenditures for its permanent supportive housing projects. Additionally, the Department reported that its permanent supportive housing performance measures are reflected in its Balance of State Continuum of Care performance measures for its comprehensive performance-measurement system. However, our review of the Department's Balance of State Continuum of Care performance measures found that, although they included 1 output measure and 1 outcome measure for collectively assessing the performance of its permanent supportive housing, emergency shelter, temporary housing, and rapid rehousing projects, the Department continues to lack output and outcome measures to specifically assess the performance of its permanent supportive housing projects. We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 64, recommendation 21). Therefore, this recommendation is no longer applicable.

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

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

► Status: **No longer applicable—superseded by new recommendation.**

Following our October 2024 sunset review, during the Fifty-seventh Legislature, first regular session, the Legislature passed Laws 2025, Ch. 241, §12, which added a statutory requirement for the Department to develop and implement a comprehensive performance-measurement system for tracking, evaluating, and reporting on program outcomes, including establishing annual measurable goals, performance benchmarks, and outcomes.³ Statute also requires the Department to submit quarterly comprehensive performance-measurement reports to the Legislature.⁴

In December 2025, the Department developed and implemented draft procedures for its comprehensive performance measurement system that include steps

³ Laws 2025, Ch. 241, §12, added A.R.S. §41-3956 to Department statutes, effective September 26, 2025.

⁴ A.R.S. §41-3956 requires the Department to provide quarterly reports to the President of the Arizona Senate and the Speaker of the Arizona House of Representatives regarding program performance outcomes, suggested improvements for affordable housing, reductions in homelessness, and other key metrics.

and time frames for establishing and tracking measurable program goals and performance measures. Although the Department's procedures require the development of annual measurable goals and performance measures, they do not require that performance measures include outcomes or benchmarks. Our review of the Department's 2 comprehensive performance-measurement reports that it submitted to the Legislature in January and May 2026 found that the Department developed goals for its housing programs but lacked performance benchmarks and measurable outcomes for some programs. Specifically, our review of the Department's performance measures for the Balance of State Continuum of Care, State Housing Trust Fund, and 4% and 9% LIHTC programs found that the Department had only developed measurable goals, benchmarks, and outcomes for the Balance of State Continuum of Care.

Additionally, although the Department's comprehensive performance-measurement system does not include Department-wide goals, it has included Department-wide goals in its strategic plan. Specifically, the Department's fiscal year 2026 strategic plan includes Department-wide goals for its housing programs, including a goal to reduce the number of individuals experiencing homelessness throughout the State by 2%. We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 64, recommendation 22). Therefore, this recommendation is no longer applicable.

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

▶ Status: **No longer applicable—superseded by new recommendation.**

See explanation for recommendation 3a.

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

▶ Status: **No longer applicable—superseded by new recommendation.**

The Department developed procedures for conducting annual evaluations of each program to assess program effectiveness that includes reviewing whether program goals and performance measures included in its comprehensive performance-measurement system were met and determining if updates are needed. However, as mentioned above, the Department lacks outcome measures for some of its programs that would help it determine whether programs are working as intended.

The Department reported that it conducted its first annual program evaluations in July through August 2026, and made revisions to its program performance measures for fiscal year 2027. We made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 64, recommendation 23). Therefore, this recommendation is no longer applicable.

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

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

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

► Status: **No longer applicable—superseded by new recommendation.**

The Department finalized its wire transfer policies and procedures in October 2025, which include steps for obtaining and verifying wire transfer bank instructions. Our review of 1 wire transfer the Department completed in March 2026 found that the Department followed its procedures, such as verifying the recipient's banking information and completing a test transfer. The Department also developed and began providing wire transfer training to Department employees.

Because the Department has only processed 1 wire transfer since it finalized its wire transfer procedures, we made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 65, recommendation 24). Therefore, this recommendation is no longer applicable.

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

► Status: **No longer applicable—superseded by new recommendation.**

Since our initial followup, the Department updated its wire transfer training to include additional requirements from its finalized wire transfer procedures, such as verifying recipient contact information and banking information, requiring supervisory review and approval for all wire transfers, and completing a test wire transfer. Further, the Department's training includes guidance for notifying relevant parties, such as the Arizona Auditor General and Arizona Attorney General, when it suspects or becomes aware of potential fraud.

In December 2025, the Department provided training on its updated policies and procedures to all its accounting staff. Additionally, the Department updated its policies to require wire fraud training for additional staff during initial onboarding and annual refresher training for staff involved in wire transfers.

Because the Department has only provided its updated training 1 time and developed policies requiring additional training, we made a new recommendation in Sunset Factor 2 that incorporates this original recommendation (see Sunset Factor 2, page 65, recommendation 24). Therefore, this recommendation is no longer applicable.

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

▶ Status: **No longer applicable—superseded by new recommendation.**

Although the Department previously indicated that it would not implement this recommendation, the Department reported during our audit that it now intends to contract with a vendor to perform a cost-study analysis of the functions within the Department's Office of Manufactured Housing. The cost-study analysis would be used to assess whether the Department's regulatory costs are commensurate with the fees the Board established. The Department reported that it anticipates that the selected vendor would complete initial cost-study analysis by December 2026.

We made a new recommendation in Sunset Factor 2 related to the Department's new efforts in this area (see Sunset Factor 2, page 65, recommendation 25). Therefore, this recommendation is no longer applicable.

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

▶ Status: **No longer applicable—superseded by new recommendation.**

As explained in the initial followup, the Department planned to incorporate its Low-Income Housing Tax Credit programs' goals and outcome measures into its comprehensive performance-measurement system. However, as explained in recommendation 3, pages c-5 through c-6, the Department had not developed measurable outcomes for some programs, including LIHTC. For example, the Department's outcome goal for the LIHTC programs is to encourage the construction and rehabilitation of low-income rental housing by allocating federal tax credits to achieve long-term affordability. However, the Department has not defined or established how it will measure this outcome.

In conjunction with recommendation 3 (see pages c-5 through c-6), we made a new recommendation in Sunset Factor 2 related to the Department's efforts to implement a comprehensive performance-measurement system (see Sunset Factor 2, page 64, recommendation 22). Therefore, this recommendation is no longer applicable.

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

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

► Status: **Implemented at 24 months.**

In 2026, during the Fifty-seventh Legislature, second regular session, the Legislature passed and the Governor signed House Bill 2868, which removes the rulemaking requirements from A.R.S. §§41-4032, 41-4036, and 41-4030.

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

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

► Status: **No longer applicable—superseded by new recommendation.**

The Department has not consistently complied with its public records request policies and procedures to provide written notice to requestors when public records requests will take more than 5 business days to fulfill (see Sunset Factor 5, pages 66 through 68, for more information).

Because the Department has not fully implemented this recommendation, we made a new recommendation in Sunset Factor 5 (see Sunset Factor 5, page 68, recommendation 26). Therefore, this recommendation is no longer applicable.

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

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

► Status: **No longer applicable—superseded by new recommendation.**

The Department updated its written procedures to specify that it can pause the 120-day time frame upon a request from the consumer complainant due to seasonal residency or based on unforeseen circumstances. HUD approved the updated procedures in

April 2026. Additionally, the Department updated its manufactured home complaint tracker to initiate the 120-day time frame from the date a request for dispute resolution is made, consistent with federal regulations.⁵

Further, during this audit, the Department updated its written procedures to include time frames for key steps in the manufactured housing dispute resolution process. For example, the updated procedures require Department staff to contact licensees to notify them of complaints within 5 working days of receiving all required documents from the consumer. The procedures also require Department staff to forward complaint response letters to consumers within 5 working days of receiving them from the licensee(s). Because we have not yet had an opportunity to assess the Department's implementation of its updated procedures, we made a new recommendation in Sunset Factor 6 that incorporates this original recommendation (see Sunset Factor 6, pages 68 through 69, recommendation 27). Therefore, this recommendation is no longer applicable.

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

▶ Status: **No longer applicable—superseded by new recommendation.**

See explanation for recommendation 11.

⁵ Laws 2025, Ch. 241, §12, requires the Department to resolve all complaints related to manufactured housing within HUD guidelines and establish a tracking system that monitors complaint resolution time frames.

Scope and methodology

The Arizona Auditor General has conducted this performance audit and sunset review of the Department pursuant to an October 7, 2025, resolution of the Joint Legislative Audit Committee.¹ 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 federal and State laws and regulations; the Department's policies, procedures, guidance documents, records, website, and various reports; and prior Auditor General reports; and interviewing Department staff.

In addition, we used the following specific methods to meet the audit objectives:

- ▶ To evaluate whether the Department monitored low-income housing tax credit properties in fiscal years 2020 through 2025, consistent with federal, State, and program requirements and/or recommended practices, we:
 - Reviewed LIHTC program requirements and guidance outlined in:
 - ▶ Federal laws and regulations.²
 - ▶ The federal register.³
 - ▶ IRS revenue rulings.⁴
 - ▶ The IRS guide to monitoring and reporting noncompliance.⁵
 - ▶ Federal health and safety standards and income limits.⁶
 - ▶ State statutes.⁷

¹ In response to a special audit request, the Joint Legislative Audit Committee also directed us to review the Department's Low-Income Housing Tax Credit program as part of the Department's performance audit and sunset review.

² 26 USC 42, 26 CFR 1.42-5, 24 CFR 5.703.

³ Section 42, Low-Income Housing Credit Compliance-Monitoring Regulations, 85 Federal Register 130 (July 7, 2020), pp. 40410 – 40612.

⁴ IRS Revenue Ruling 89-24, Internal Revenue Bulletin No. 1989-9. (February 27, 1989); IRS Revenue Ruling 2020-4, Internal Revenue Bulletin No. 2020-8. (February 18, 2020).

⁵ Internal Revenue Service. (2024). *Low-income housing credit agencies report of noncompliance or building disposition audit technique guide: Guide for completing form 8823*. Retrieved 3/3/2026 from <https://www.irs.gov/pub/irs-pdf/p5913.pdf>

⁶ U.S. Department of Housing and Urban Development. (2023). *NSPIRE standards*. Retrieved 4/15/2026 at <https://www.hud.gov/reac/nspire-standards>; HUD Office of Policy Development and Research. (2026). *FY 2026 MTSP income limits*. Retrieved on 6/1/2026 from <https://www.huduser.gov/portal/datasets/mtsp/mtsp26/HERA-Income-Limits-Report-FY26.pdf>

⁷ A.R.S. §§41-3954, 43-1075, and 43-1163.

- Reviewed recommended practices for administering State regulatory programs.⁸
 - Reviewed Department records for a sample of 10 of 512 LIHTC properties that were subject to the Department's compliance monitoring and reporting during fiscal years 2020 through 2025.^{9,10}
 - Reviewed the Department's training materials for compliance monitoring and reporting.
 - Conducted in-person observation of the Department's inspections at 1 LIHTC property.
- To obtain information for the Questions and Answers, we reviewed:
- The Department's Qualified Allocation Plans.
 - The Department's LIHTC application-related records, such as templates and completed scoring rubrics, application guidance documents, and completed developer applications.
 - The Department's published data on LIHTC and STC properties awarded tax credits from calendar years 2020 through 2025.
 - The number of low-income housing units in U.S. Department of Housing and Urban Development (HUD) data on LIHTC properties placed in service in calendar years 2020 through 2024.¹¹
 - Literature of the cost efficiency of the developing LIHTC and STC properties and recommended practices for optimizing use of federal and State low-income tax credits.¹²

⁸ National State Auditors Association (NSAA). (2004). *Carrying out a state regulatory program*. Retrieved 4/8/2026 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Carrying_Out_a_State_Regulatory_Program.pdf

⁹ We selected and reviewed a sample of 10 of 512 LIHTC properties that were subject to Department compliance monitoring and reporting during fiscal years 2020 through 2025, including 4 judgmentally selected properties that received both State and federal tax credits that were subject to inspection during the audited period and 6 randomly selected properties that received federal tax credits but no STC funding. For each of the sampled properties, we reviewed the Department's records associated with the most recent property inspection that the Department completed.

¹⁰ Records we reviewed included LIHTC agreements with property owners; inspection reports; property owner noncompliance notices; photographs, work orders, and other evidence that property owners submitted to the Department to demonstrate that noncompliance was addressed; and IRS noncompliance notices.

¹¹ Office of Policy Development and Research. (n.d.). 1987-2024 LIHTC database [Data set]. HUD. Retrieved 4/23/2026 from <https://www.huduser.gov/lihtc/>

¹² Hornung, D. (2025). States can ensure new low-income housing resources get more affordable housing built. *Urban Institute*. Retrieved 7/16/2026 from https://www.urban.org/sites/default/files/2025-07/States_Can_Ensure_New_Low-Income_Housing_Resources_Get_More_Affordable_Housing_Built.pdf; Kneebone, E., & Reid, C. (2021). The complexity of financing low-income housing tax credit housing in the United States. *Terner Center for Housing Innovation*. Retrieved 8/4/2026 from <https://ternercenter.berkeley.edu/wp-content/uploads/2021/04/LIHTC-Complexity-Final.pdf>; Stamm, E & LaJoie, T. (2020). An overview of the Low-Income Housing Tax Credit (LIHTC). *Tax Foundation*. Retrieved 7/16/2024 from <https://files.taxfoundation.org/20200810100355/An-Overview-of-the-Low-Income-Housing-Tax-Credit.pdf>; Goetz, E., & Turvey, M. (2024). The relative inefficiency of the Low-Income Housing Tax Credit in Minnesota. *Center for Urban and Regional Affairs, University of Minnesota*. Retrieved 7/16/2026 from <https://www.cura.umn.edu/sites/cura.umn.edu/files/2024-03/lihtc-memo.pdf>; National Council of State Housing Agencies. (2023). *Recommended practices in housing credit administration*. Retrieved 7/13/2026 from <https://www.ncsha.org/wp-content/uploads/2018/04/NCSHA-Recommended-Practices-in-Housing-Credit-Administration-October-2023-FINAL.pdf>; U.S. Government Accountability Office (U.S. GAO). (2018). *Low-income housing tax credit: Improved data and oversight would strengthen cost assessment and fraud risk management*. Retrieved 7/16/2026 from <https://www.gao.gov/products/gao-18-637>; Hornung, 2025.; U.S. Department of the Treasury (2024). *Housing crisis in focus: LIHTC best practices to discourage qualified contracts and keep housing affordable for longer*. Retrieved 7/13/2026 from <https://home.treasury.gov/news/featured-stories/housing-crisis-in-focus-lihtc-best-practices-to-discourage-qualified-contracts-and-keep-housing-affordable-for-longer>

- Literature on the LIHTC program and the impacts of LIHTC on state and local economies.^{13,14}
- U.S. Census Bureau data on vacant rental units and gross rent as a percentage of household income.^{15,16}
- The supply of affordable housing in zip code areas awarded federal and State tax credits from 2010 to 2024. We started by finding the percentage of rental units in that area that met HUD’s affordability standard.¹⁷ After determining which zip code areas had less than 50% of affordable rental units, we determined the percentage of rental units awarded tax credits that were planned to be built in areas lacking affordable housing.
- The State tax credit’s impact on the housing market and affordable housing supply by conducting time-series forecast analyses. Specifically, we conducted a time-series forecast analysis to estimate the number of vacant rental units in zip code areas with LIHTC and STC projects and a control group of neighboring zip codes without LIHTC and STC projects from calendar years 2025 to 2036 using an auto-regressive moving average (ARIMA) model. Additionally, we conducted a time-series forecast analysis using an ARIMA model to estimate the number of rental units that the Department would place into service with and without the continuation of the State Tax Credit program in years 2026-2036 using Department-published data on the number of planned units awarded tax credits dating back to 1987.
- Other states’ statutes, government websites, and publicly available information published on a national housing firm’s website.¹⁸

¹³ Keightley, M. P. (2025). An introduction to the low-income housing tax credit. *Congressional Research Service*. Retrieved 5/28/2026 from <https://www.congress.gov/crs-product/RS22389>

¹⁴ University of Georgia. (2022). Revisiting the economic impact of Low Income Housing Tax credits in Georgia. *Georgia Affordable Housing Coalition*. Retrieved 6/24/2026 from <https://www.fcs.uga.edu/docs/LIHTC-Economic-Impact-022223-Digital.pdf>; Gonzalez-Hermoso et al. (2026). How affordable housing contributes to local economies and tax revenues. *Urban Institute*. Retrieved 6/24/2026 from <https://www.urban.org/research/publication/how-affordable-housing-contributes-local-economies-and-tax-revenues>; Housing Alliance of Pennsylvania. (2019). *Pennsylvania needs a state housing tax credit*. Retrieved 6/24/2026 from <https://housingalliancepa.org/wp-content/uploads/Housing-Alliance-PA-Tax-Credit-Brochure-Online-Version-Nov-2019.pdf>; Elliott D. Pollack & Company (2025). *Arizona’s Affordable Housing Tax Credit program economic and fiscal impact report—Approved projects as of 2024*. Retrieved 12/15/2025 from https://azhousingcoalition.org/wp-content/uploads/2025/12/Arizona-Affordable-Housing-Tax-Credit-Impact_FINAL-2.pdf

¹⁵ U.S. Census Bureau. (2024). *American Community Survey 5-Year estimates—Rental vacancy rates*. Retrieved 2/6/2026 from <https://data.census.gov/table/ACSDT1Y2024.B25004?q=Vacancy+Rates>

¹⁶ U.S. Census Bureau. (2024). *American Community Survey 5-Year estimates—Gross rent as a percentage of household income*. Retrieved 2/6/2026 from [https://data.census.gov/table/ACSDT1Y2024.B25070?q=median+gross+rent+percent&g=040XX00US04,04\\$8600000](https://data.census.gov/table/ACSDT1Y2024.B25070?q=median+gross+rent+percent&g=040XX00US04,04$8600000)

¹⁷ HUD considers housing to be affordable if a household spends no more than 30% of gross income on housing costs, including rent or mortgage payments and utilities.

¹⁸ Novogradac. (2026). *State LIHTC Program descriptions*. Retrieved 6/25/2026 from <https://www.novoco.com/resource-centers/affordable-housing-tax-credits/state-lihtc-program-descriptions>; Novogradac. (2025). *2025 State Tax Credit information*. Retrieved 6/19/2026 from <https://www.novoco.com/resource-centers/affordable-housing-tax-credits/2025-state-tax-credit-information>; Novogradac. (2026). *2026 State Tax Credit information*. Retrieved 6/19/2026 from <https://www.novoco.com/resource-centers/affordable-housing-tax-credits/2026-state-tax-credit-information>

- ▶ To assess the Department's efforts to implement key oversight practices for selected housing programs, we reviewed:
 - The Department's written plan outlining action steps it developed for implementing key program oversight practices and Department documentation related to these action steps, such as draft procedures, risk-assessments tools, and tracking documents. We also reviewed Department training materials and training attendance logs.
 - Meeting notes and tracking documents from monthly meetings held in January 2026 through May 2026 between the Department director and Department staff to provide updates on progress made in implementing key oversight practices. We also observed the meeting between the Department director and Department staff held in April 2026 and reviewed Department developed templates for providing monthly reports on oversight metrics to Department leadership.
 - A judgmental sample of 4 previously approved and paid payment requests that the Department conducted a subsequent review of and the Department's payment request review tracker.¹⁹
- ▶ To assess whether the Department developed and implemented a plan to revise its Balance of State Continuum of Care goals, targets, and review of performance measures and outcomes, we reviewed the Balance of State Continuum of Care fiscal year 2026 strategic plan and Department reports, including its comprehensive performance-measurement report and Advisory Board meeting notes.
- ▶ To evaluate whether the Department developed a process for tracking its permanent supportive housing expenditures and establishing inputs, outputs, and outcome measures for its permanent supportive housing projects, we reviewed the Department's permanent supportive housing expenditure tracker and Balance of State Continuum of Care performance measures.
- ▶ To assess whether the Department developed a documented comprehensive performance-measurement system, we reviewed the Department's January and May 2026 comprehensive performance-management reports, and fiscal year 2026 strategic plan.
- ▶ To assess whether the Department developed and implemented policies and procedures to securely process wire transfers and to notify relevant parties, we reviewed Department wire transfer policies and procedures, a wire transfer the Department completed in March 2026, and Department notices of attempted fraud. We also reviewed Department training materials on its updated wire transfer policies and procedures that it provided to staff in December 2025.

¹⁹ We judgmentally selected 4 of 374 payment requests that the Department had completed its review of based on whether or not the Department had identified concerns with the payment requests, including 1 of 73 reviewed payment requests from fiscal year 2021 that Department data indicated required additional review, 1 of 53 reviewed payment requests from fiscal year 2022 that Department data determined required additional review, 1 of 202 reviewed payment requests from fiscal year 2023 that Department data indicated did not require additional review, and 1 of 46 reviewed payment requests from fiscal year 2024 that Department data indicated did not require additional review.

- ▶ To assess the extent to which the Department implemented our recommendation related to developing proposed fees for manufactured housing, we observed an April 2026 Board meeting and reviewed a draft scope of work for performing a cost-study analysis.
- ▶ To assess whether the Board worked with the Legislature to modify statutes that require rules, we reviewed legislation introduced during the Fifty-seventh Legislature, second regular session.
- ▶ To evaluate whether the Department complied with its public records request policies and procedures, we reviewed a judgmental sample of 5 of 169 public records requests the Department received between June 2025 and February 2026.²⁰
- ▶ To assess the Department's compliance with the State's open meeting law requirements, we observed 1 public meeting held in April 2026 and reviewed this meeting's notice, agenda, and minutes.²¹
- ▶ To assess the Department's complaint-handling process for manufactured housing, we reviewed the Department's manufactured housing complaint documentation, the Department's complaint-tracker documentation, and written responses a HUD official provided to us.
- ▶ To evaluate whether the Department has established safeguards against possible conflicts of interest, we reviewed the Department's special disclosure file; 5 judgmentally sampled forms completed by executive staff and 5 randomly sampled forms completed by the remaining population of 98 Department staff; and the conflict-of-interest disclosure forms for all 7 Board members, as of April 2026.
- ▶ 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 2024 and 2025, and Department-prepared estimates for fiscal year 2026.

Our work on internal controls included 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.

²⁰ We judgmentally selected our sample based on requests that took longer than 5 days to fulfill according to the Department's tracking system.

²¹ We reviewed the Board's compliance with open meeting law requirements for 1 of 2 meetings held between January and June 2026.

When relying on Department-provided data to support our findings and conclusions, we performed certain tests to ensure the data was sufficiently valid, reliable, and complete to meet the audit objectives. Unless otherwise noted, we determined the Department-provided data was sufficiently valid, reliable, and complete for audit purposes.

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 Director Dhillon-Williams and Department staff for their cooperation and assistance throughout the audit.

DEPARTMENT RESPONSE

The subsequent pages were written by the Department to provide a response to each of the findings and to indicate its intention regarding implementation of the recommendations resulting from the audit conducted by the Arizona Auditor General.

September 22, 2026

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

RE: Performance Audit and Sunset Review of Arizona Department of Housing

Dear Auditor General Perry:

The Arizona Department of Housing (ADOH) has reviewed the Auditor General's report dated September 15, 2026. The Department remains committed to continuous operational improvement and has already implemented several key recommendations stemming from our 2024 sunset review. Building upon that progress, we will apply those same implementation efforts to address the additional recommendations outlined in this latest review. Detailed responses to the one finding and correlated recommendations are enclosed.

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

Sincerely,

A handwritten signature in blue ink, appearing to read 'R. Dhillon-Williams', followed by a horizontal line.

Ruby Dhillon-Williams, Director
Arizona Department of Housing

Enclosure: ADOH Recommendation Response

Finding 1: Department's LIHTC program inspections, record reviews, and reporting did not ensure some LIHTC housing units at properties we reviewed were safe, sanitary, and rented only to eligible low-income tenants at allowable rates

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

Response explanation: In alignment with Treasury and IRS standards, the Department conducts routine physical inspections and tenant file audits across all Arizona LIHTC properties. Identified non-compliance is resolved through established corrective action protocols to ensure properties remain safe and sanitary while continuing to serve qualified low-income residents.

The Department should complete inspections of LIHTC properties consistent with federal and State requirements, program guidance, and recommended practices, including:

Recommendation 1: Documenting inspections of all required health and safety standards and property owner record reviews.

Department response: The audit recommendation will be implemented

Response explanation: On September 15, 2026, the Department identified a vendor to implement an electronic solution that will standardize and automate the documentation of LIHTC inspections.

Recommendation 2: Notifying property representatives of all urgent health and safety violations at the end of the inspection.

Department response: The audit recommendation will be implemented

Response explanation: On September 15, 2026, the Department identified a vendor to implement an electronic solution that will standardize and automate the notification of all urgent health and safety issues resulting from LIHTC inspections.

Recommendation 3: Notifying property owners of all inspection deficiencies promptly and in writing within 30 days of completing an inspection of a LIHTC property.

Department response: The audit recommendation will be implemented

Response explanation: On September 1, 2026, the Department implemented an electronic solution to meet its 30-Day goal for transmission of LIHTC inspection results to property owners.

Recommendation 4: Reporting all required property noncompliance to the IRS, as applicable.

Department response: The audit recommendation will be implemented

Response explanation: On September 1, 2026, the Department implemented an electronic solution to meet IRS reporting requirements resulting from a LIHTC inspection.

The Department should update and/or develop and implement additional written policies, procedures, inspection report templates, and/or guidance outlining requirements and guidance for all key steps for inspecting LIHTC properties and conducting property owner record reviews, including:

Recommendation 5: Documenting inspections of all required health and safety standards and verification of low-income eligibility and allowable rent-rate requirements.

Department response: The audit recommendation will be implemented

Response explanation: The Department is updating policies and procedures that will be integrated with the electronic solution to standardize the documentation of LIHTC inspections and file audits.

Recommendation 6: Notifying property representatives of urgent health and safety violations at the end of the inspection.

Department response: The audit recommendation will be implemented

Response explanation: The Department is updating policies and procedures that will be integrated with the electronic solution to standardize the health and safety notification process resulting from LIHTC inspections.

Recommendation 7: Notifying property owners of any identified noncompliance in writing, including a specific time frame for notifying owners after an inspection.

Department response: The audit recommendation will be implemented

Response explanation: The Department is updating policies and procedures that will be integrated with the electronic solution to meet its 30-Day goal for transmission of LIHTC inspection results to property owners.

Recommendation 8: Ensuring all violations are corrected, including determining when a reinspection is needed.

Department response: The audit recommendation will be implemented

Response explanation: The Department is updating its policies and procedures to clarify documentation requirements for corrected issues and reinspection scheduling.

Recommendation 9: Develop, document, and implement a standardized training program for Department inspectors, including requesting feedback from inspectors to develop the documented training program. The documented training program should address all key requirements and standards related to LIHTC compliance monitoring and reporting, including those addressed in recommendations 1 through 8.

Department response: The audit recommendation will be implemented

Response explanation: The Department is updating its policies and procedures to request and encourage feedback, standardize, and document training for Compliance Officers. The documented training program will address all key requirements and standards related to LIHTC compliance monitoring and reporting, including those addressed in recommendations 1 through 8.

Recommendation 10: Develop and implement written policies and procedures for providing and documenting supervisory oversight of LIHTC property inspections and property owner record reviews to help ensure Department inspectors adhere to all compliance monitoring requirements and expectations. Once these policies and procedures have been established, the Department should provide training on policies and procedures to Department supervisors.

Department response: The audit recommendation will be implemented

Response explanation: The Department is updating its policies and procedures to standardize oversight and document training for Compliance Supervisors. Once these policies and procedures are completed, the Department will provide training on policies and procedures to Compliance Supervisors.

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

The Department developed a written plan outlining steps it will take to implement key practices for providing program oversight, but it is still in process of implementing its written plan.

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

Response explanation: As of June 30, 2026, Standard Operating Procedures (SOPs) were fully established across all programs.

The Department should continue to implement its written plan for implementing the key practices for providing program oversight consistent with federal and State requirements and recommended practices. Its written plan should continue to be updated as necessary and include steps and deadlines for developing and/or updating and implementing policies, procedures, and/or guidance for:

Recommendation 11: Conducting inspections for all special needs housing, emergency shelter, and affordable housing development projects.

Department response: The audit recommendation will be implemented

Response explanation: As of June 30, 2026, Standard Operating Procedures (SOPs) are fully established across all programs. The SOPs enforce standardized controls for site monitoring inspections and will continue to be updated as necessary.

Recommendation 12: Verifying that special needs housing and emergency shelter expenses in payment requests are supported and allowable based on special needs

housing and emergency shelter program requirements and funding agreements and outlining the supporting documentation that should be submitted with payments requests.

Department response: The audit recommendation will be implemented

Response explanation: As of June 30, 2026, Standard Operating Procedures (SOPs) are fully established across all programs. The SOPs enforce standardized controls for Request for Reimbursement review and processing and will continue to be updated as necessary.

Recommendation 13: Ensuring special needs housing and emergency shelter projects grantees submit required project reports and Department staff review the reports and hold grantees accountable and take enforcement action when they do not submit required reports and information, such as not approving grantees' payment requests, as necessary.

Department response: The audit recommendation will be implemented.

Response explanation: As of June 30, 2026, Standard Operating Procedures (SOPs) are fully established across all programs. The SOPs enforce standardized controls for performance reporting review and enforcement action, and will continue to be updated as necessary.

Recommendation 14: Conducting annual risk assessments for special needs housing and emergency shelter projects and providing additional monitoring activities for grantees determined to be higher risk.

Department response: The audit recommendation will be implemented

Response explanation: As of June 30, 2026, Standard Operating Procedures (SOPs) are fully established across all programs. The SOPs enforce standardized controls for formal applicant/recipient risk assessment and monitoring activities, and will continue to be updated as necessary.

Recommendation 15: Using information obtained during its application process to determine additional monitoring activities for rental development project grantees determined to be higher risk.

Department response: The audit recommendation will be implemented

Response explanation: As of June 1, 2026, Standard Operating Procedures (SOPs) include a risk assessment analysis to determine additional monitoring activities for rental development project grantees determined to be higher risk. The SOPs will continue to be updated as necessary.

The Department developed processes for reporting to the director on progress made with implementing and sustaining key program oversight practices and will need to continue these processes until all key oversight practices are implemented and to ensure the sustained implementation thereafter.

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

Response explanation: The Department holds monthly ongoing Oversight Implementation Progress check-in meetings where program progress is monitored, the Director is briefed during each meeting, and the plan is updated as necessary.

Recommendation 16: Continue to require program staff to provide frequent and regular reports to the Department director on their progress implementing the Department's written plan outlined in recommendations 11 through 15.

Department response: The audit recommendation will be implemented

Response explanation: The Department holds monthly ongoing Oversight Implementation Progress check-in meetings where program progress is monitored, the Director is briefed during each meeting, and the plan is updated as necessary.

Recommendation 17: Continue to implement a process for regular reporting on and review of key oversight metrics by Department leadership to ensure the sustained implementation of program oversight practices outlined in recommendations 11 through 15.

Department response: The audit recommendation will be implemented

Response explanation: The Department holds monthly ongoing Oversight Implementation Progress check-in meetings where program progress is monitored, Department leadership is briefed during each meeting, and the plan is updated as necessary.

Recommendation 18: Evaluate its oversight processes for all housing programs and align them with the key oversight practices outlined in our October 2024 performance audit, including establishing processes for conducting inspections, reviewing payment requests, requiring reports, and conducting risk assessments.

Department response: The audit recommendation will be implemented

Response explanation: The Department holds monthly ongoing Oversight Implementation Progress check-in meetings to evaluate its oversight processes for all housing programs and align them with the key oversight practices outlined in the October 2024 performance audit, including establishing processes for conducting inspections, reviewing payment requests, requiring reports, and conducting risk assessments.

Recommendation 19: Provide periodic training to all relevant staff on the Department's oversight policies, procedures, guidance, and requirements, including providing training to new staff. As part of its training, the Department should explicitly notify staff that they are required to follow policies and procedures for reviewing payment requests.

Department response: The audit recommendation will be implemented

Response explanation: At onboarding, and on an annual basis, all staff receive training on oversight policies, procedures, and requirements. On July 14, 2025, the Department provided staff training on awards and contracts, including procedures and best practices

for RFP review. Beginning December 12, 2025, the training was incorporated into staff onboarding procedures. At all training sessions, staff are notified they are required to follow Department policies and procedures, including for reviewing payment requests.

Despite reporting to the Legislature that its review did not identify any improper payments made to grantees, the Department's review identified the need for additional supporting documentation for some expenses for more than half of the payment requests submitted by special needs housing grantees, which is necessary to review prior to reporting to the Legislature that it did not pay grantees for unallowable expenses.

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

Response explanation: On September 24, 2024, the Department initiated a risk-based framework to detect and prevent improper payments. Based on operational feedback during implementation, the process was enhanced and fully executed for all Payment Requests effective June 30, 2026. The Department continues to follow this standard workflow, ensuring that all payment processing strictly aligns with established departmental policies and procedures.

Recommendation 20: Continue its review of approved and paid payment requests since 2021, including obtaining and reviewing adequate supporting documentation demonstrating grantees incurred allowable program expenses to identify unallowable payments made to grantees and recover those monies.

Department response: The audit recommendation will be implemented.

Response explanation: On September 24, 2024, the Department initiated a risk-based framework to detect and prevent improper payments. Based on operational feedback during implementation, the process was enhanced and fully executed for all Payment Requests effective June 30, 2026. The Department continues to follow this standard workflow, ensuring that all payment processing strictly aligns with established departmental policies and procedures.

The Department developed a process for tracking expenditures for its permanent supportive housing projects but lacks performance measures that are specific to permanent supportive housing.

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

Response explanation: As of June 30, 2025, performance measures for Permanent Supportive Housing projects were developed and tracked in the Comprehensive Performance Measurement System from 07/01/2025 to 06/30/2026 as AZBOSCOG Performance Metric 1 and Performance Metric 2.

Recommendation 21: Continue to implement a process to systematically track its permanent supportive housing expenditures and develop and implement processes for

establishing output and outcome measures that are specific to permanent supportive housing for Department programs with permanent supportive housing goals.

Department response: The audit recommendation will be implemented

Response explanation: The Department will continue to track and report output and outcome measures in the manner prescribed by HUD for the Continuum of Care program that funds permanent supportive housing through Homeless Management Information System reporting and data entry into HUD's Integrated Disbursement Information System.

The Department developed a comprehensive performance-measurement system, but some program-performance measures need improvement.

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

Response explanation: On July 1, 2025, the Department launched the Comprehensive Performance Measurement System, establishing SMART objectives and quarterly tracking across all 21 programs. Following its first full annual evaluation in August 2026, and incorporating feedback from a July 2026 review by the Auditor General, the Department identified, revised, and implemented key performance measures to strengthen tracking for the SFY2027 reporting cycle.

Recommendation 22: Revise and implement its comprehensive performance measurement system procedures to include processes for tracking, evaluating, and establishing annual measurable goals, performance benchmarks, and measurable outcomes for its programs and Department-wide.

Department response: The audit recommendation will be implemented

Response explanation: On July 1, 2025, the Department launched the Comprehensive Performance Measurement System, establishing SMART objectives and quarterly tracking across all 21 programs. Following its first full annual evaluation in August 2026, and incorporating feedback from a July 2026 review by the Auditor General, the Department identified, revised, and implemented key performance measures to strengthen tracking for the SFY2027 reporting cycle.

Recommendation 23: Conduct 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 audit recommendation will be implemented

Response explanation: The Department conducts quarterly evaluations through its Comprehensive Performance Measurement System and makes timely modifications to those programs as necessary.

The Department developed and began implementing policies, procedures, and training for wire transfers.

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

Response explanation: As of October 21, 2025, the Department implemented policies, procedures, and training for wire transfers.

Recommendation 24: Continue to implement its policies and procedures for processing wire transfers and provide training to all relevant employees on its wire transfer policies and procedures.

Department response: The audit recommendation will be implemented

Response explanation: As of October 21, 2025, the Department implemented policies and procedures for processing wire transfers and provided training for all relevant employees on its wire transfer policies and procedures.

The Department developed a plan to conduct a cost study analysis related to manufactured housing fees.

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

Response explanation: On July 14, 2026, the Department selected a vendor to perform a cost-study analysis. The vendor anticipates concluding the study in December 2026.

Recommendation 25: Continue with its efforts to perform a cost-study analysis to help ensure the fees the Board establishes are commensurate with the Department's regulatory costs.

Department response: The audit recommendation will be implemented

Response explanation: On July 14, 2026, the Department selected a vendor to perform a cost-study analysis. The vendor anticipates concluding the study in December 2026 and will be presenting it to the Board.

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 appropriate public access to its rulemakings and meetings, including soliciting public input when making rules, but did not consistently comply with its public records request policies and procedures to provide written notice to requestors when public records requests will take more than 5 business days to fulfill.

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

Response explanation: As of July 10, 2026, the Department created a new tracking system to ensure compliance with its updated policies and procedures.

Recommendation 26: Provide written notice to requestors when a public records request will take more than 5 business days to fulfill.

Department response: The audit recommendation will be implemented

Response explanation: As of July 10, 2026, the Department created a new tracking system to ensure compliance with its updated policies and procedures.

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

The Department has taken steps to help ensure that complaints within its jurisdiction are timely investigated and resolved.

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

Response explanation: On March 27, 2026, the Department modified its complaint tracking procedures, and the new procedures were approved by HUD on April 14, 2026.

Recommendation 27: Implement its updated procedures for handling manufactured housing complaints, including by ensuring complaints are resolved within 120 days and by monitoring and documenting the resolution of complaints in its tracker.

Department response: The audit recommendation will be implemented

Response explanation: On March 27, 2026, the Department modified its complaint tracking procedures, and the new procedures were approved by HUD on April 14, 2026.