

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 AZBOSCO 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.