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Governor



JOAN SERVISS
Director

STATE OF ARIZONA
DEPARTMENT OF HOUSING

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September 12, 2024

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

RE: Auditor General's report, Arizona Department of Housing – Oversight of Select Housing Programs

Dear Ms. Perry:

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "Joan Serviss".

Joan Serviss, Director
Arizona Department of Housing

Enclosure: ADOH Recommendation Response

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

Recommendation 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:

Recommendation 1a: Conducting site inspections for all special needs housing projects it administers and oversees, consistent with federal and State requirements.

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

Response explanation: The Department acknowledges the importance of site visits as part of the monitoring process for grantees. The Special Needs Division suspended site visits during the COVID-19 pandemic and began conducting site visits again in the fall of 2023. A monitoring schedule with site visit dates was created for FY2025 grantees. Policies and Procedures are currently being updated to ensure consistency and uniform application.

Recommendation 1b: Verifying that expenses included in payment requests are supported and allowable prior to approving payments to special needs housing and emergency shelter project grantees.

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

Response explanation: The Department agrees that expenses submitted with payment requests must have supporting documentation and staff are required to verify the expenses are allowable. Policies and Procedures are currently being updated to ensure consistency and uniform application.

Recommendation 1c: 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.

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

Response explanation: The Department agrees project reports should be provided in accordance with the terms stated in a grantee's contract and reviewed by staff. Staff are required to follow-up with grantees that do not submit reports timely and utilize enforcement action as necessary. Policies and Procedures are currently being updated to ensure consistency and uniform application.

Recommendation 1d: Conducting annual risk assessments for special needs housing projects and providing additional monitoring activities for grantees determined to be higher risk.

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

Response explanation: The Department agrees that annual risk assessments are required for Special Needs Housing projects grantees and should be used as a best practice for all grantees within the Special Needs Division. Staff have developed a risk assessment tool and will begin utilizing the assessment to determine which grantees are a higher risk and require additional monitoring.

Recommendation 1e: 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.

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

Response explanation: The Department will implement a process supported by written policies and procedures for scheduling required inspections for federal projects **or** obtaining construction progress reports for all rental housing development and emergency shelter projects

Recommendation 1f: 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.

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

Response explanation: The Department agrees staff require guidance pertaining to allowable expenses and forms of acceptable supporting documentation. Additionally, existing policies and procedures are being enhanced to ensure consistency and uniform application.

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

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

Response explanation: Policies and Procedures are currently being updated to ensure consistency and uniform application to support emergency shelter project grantees.

Recommendation 1h: 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.

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

Response explanation: The Department agrees and existing processes will be enhanced to ensure risk analyses are completed as part of the application review or underwriting and results will be summarized (name of entity, name of project, risk level determined).

Recommendation 1i: 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.

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

Response explanation: The Department agrees and will develop the procedures necessary to implement this recommendation, including action steps which could include enhanced monitoring if a grantee is deemed to be moderate to high risk.

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

Recommendation 2a: Requiring program staff to provide frequent and regular reports to the Department director on their progress in implementing the steps outlined in Recommendation 1.

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

Response explanation: The Department agrees the Director should be informed of progress in implementing the steps outlined in Recommendation 1 and require program staff to provide regular reports on implementation steps.

Recommendation 2b: 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.

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

Response explanation: The Department agrees and will implement a process for regular reporting on and review of key oversight metrics by Department leadership to ensure the sustained implementation of program oversight thereafter.

Recommendation 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.

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

Response explanation: The Department agrees and will evaluate the oversight processes for our housing programs and align them with recommended oversight measures and implement best practices as necessary.

Recommendation 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.

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

Response explanation: The Department agrees with the need for staff training and will develop a periodic training schedule for existing staff and include training pertaining to policies and procedures for new hires as part of the onboarding.

Recommendation 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.

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

Response explanation: The Department agrees that prior requests for payment received by the Special Needs Division should be reviewed to determine whether unallowable costs were approved. The Department will review one RFP, per quarter, per grantee since 2021 for payment requests submitted for State funds. If unallowable costs are identified, all the requests for payment submitted under that particular contract will be reviewed.