

SECTION VII – SAMPLE ON-SITE AUDIT

The following area is a sample of what to expect for a CTCAC inspection, from the preliminary paperwork needed through the completion of the inspection.

Part 700 Preliminary Requirements

- A. Letter of Notification** – Approximately three weeks to a month before a CTCAC Audit, the owner of the property and the management company contact on file will receive a letter stating the time and date of the inspection. It will also list the items that need to be returned to the analyst by a specific due date before the inspection.
- B. Project Status Report (PSR)** – This is a form that must be downloaded off of the CTCAC website at <http://www.treasurer.ca.gov/ctcac/compliance.asp>. It must be filled out completely and e-mailed to the analyst who will be doing the inspection. This is only form CTCAC requires to be in a specific format, as the completed PSR received via e-mail will be downloaded into a database from which all inspection information will be produced. Therefore, the PSR form that is submitted must be the most current as available on the website and may not have any additional cells, data, or worksheets added into it. If there is a problem with the submitted PSR, the analyst in charge of the inspection may contact the owner to have the PSR re-submitted in the correct format. Repeated failure to submit the PSR in the format requested may cause CTCAC to cancel the inspection and issue an uncorrected Form 8823 to the IRS for failure to comply with monitoring requirements. *Currently, the PSR form is in Excel 2003 (.xls) format. Until further notice, any Excel 2007 (.xlsx) PSR's must be converted to the '03 format before submission to CTCAC.*
- Mixed use properties should not include market-rate tenants on the PSR that is submitted. It is for LIHTC units only. However, a separate listing showing units containing the market rate units per building should be submitted. CTCAC is currently working on updating the PSR to reflect an area for Market-rate tenants. Updated forms will be posted on the website as soon as they become available.
- C. Utility Allowance** – A copy of the current Utility Allowance, showing the source (PHA) used must be submitted prior to the inspection. The amounts used should be circled and added at the bottom of the sheet. The bedroom size and amount used should be easily readable. Please note that CTCAC may question and reject any Utility Allowance that does not come directly from an approved source.
- D. Rent Roll** – A copy of the current rent roll for the entire property needs to be submitted prior to the inspection. If the property to be inspected is a mixed use property, please label the units that are market rate.
- E. Copy of Inspection Notice** – please submit a copy of the letter used to notify tenants of the upcoming inspection.

F. Failure to respond to preliminary requirements – If the owner fails to submit the preliminary documents by the time requested, then the following may occur:

1. A CTCAC analyst may contact the owner via telephone or e-mail to remind them of the missing documentation and give a new deadline
2. A CTCAC analyst may contact the management agency contact on file via telephone or e-mail to remind them of the missing documentation and give a new deadline

If repeated attempts have failed to produce the required documentation in a timely manner by all verbal and written due dates, then the analyst may cancel the inspection and CTCAC may issue an uncorrected Form 8823 to the IRS stating the owner failed to comply with monitoring review.

Part 710 File Inspection

CTCAC policy will always be the monitoring of file inspections should be performed at the property site. If the office is not large enough to accommodate the Analyst(s) than a vacant unit supplied with a table and chairs will be acceptable.

A. Application

All tenant files must contain a current Application at initial move-in. CTCAC will inspect the initial application to verify:

1. Minimum of a 2 year housing history
2. Applicants listed match the tenants occupying the units
3. Application indicates all sources of income and assets from wages, pensions, IRA's, 401k's, etc.
4. Employment information is the same as found on the Verification of Employment

B. Income Calculation (Wages)

1. Regular Income – CTCAC calculates income three ways and then uses the highest number to determine eligibility. The three ways are Verification of Employment from the employer, YTD calculation (off of both the VOE and the paystubs), and average number of hours/OT as listed on the pay stubs.*

**If there is conflicting information between the VOE and the pay stubs, prior to moving in the household, then there must be 3rd party written documentation from the employer clarifying the discrepancy. Additionally, more pay stubs may be requested to determine eligibility and demonstrate due diligence.*

2. Self Employment – CTCAC looks for the following information to verify self employment income:

- a. Previous Year's 1040 Tax Return and Schedule C**

OR:

IRS Form 4506-T and one of the following:

- b. Profit and Loss Statement
- c. Statements from recurring clients

*** for self-employed individuals who claim not to file tax returns for their business CTCAC will require management obtain a copy of Form 4506-T – request for verification of tax filing with the IRS, to verify no-filing status, as the IRS has stated that ALL persons who are self-employed must file a tax return regardless of their tax liability.*

3. Day Labor – CTCAC defines Day Labor as a tenant who waits in a specified location to do various odd jobs and is paid with cash. Day Labor does not usually have a recurring clientele and can vary dramatically on income or hours. CTCAC recognizes that in certain cases Day Labor is impossible to 3rd Party verify, and as such, will accept a Self Certification of Wages from the tenant. However, this does not excuse the management company from using all due diligence in processing the certification for the tenant. Patterns of excessive use of Self-Certifications in the 20% CTCAC audit sample, may trigger a request for additional information or a larger audit sample.

4. Anticipated Earnings - CTCAC does not calculate anticipated earnings, unless documentation from employer is in the file indicating pending offer of employment or start date. If the only form of income for a household is from anticipated wages, CTCAC will question the household's ability to pay for rent, food and utilities and require management to demonstrate how they will be paid for. (See Section IV 410-F)

5. Cash Wages – As of June 2004, in addition to the Verification of Employment (VOE) CTCAC requires 3 months of current consecutive pay-stubs at move-in. If the tenant is claiming that they do not receive pay-stubs as they are paid in cash, the IRS has determined that those individuals are considered “independent contractors” and as such should file a 1040 tax return. CTCAC will require a copy of the 1040 filing for the tenant and a third party statement from the employer on company letterhead, indicating the name of the tenant, the position title, and how much the employer pays the tenant in cash each week. CTCAC will question patterns of excessive use of Cash Wages statements in the 20% audit sample, and may request additional information or a larger audit sample.

Additionally, if a household is claiming they do not file taxes on cash wages, starting July 1, 2010, CTCAC will require a completed IRS form 4506-T, received back from the IRS, to be in the file, verifying non-filing status in addition to the third party statement from the employer on company letterhead, indicating the name of the tenant, the position title, and how much the employer pays the tenant in cash each week.

C. Income Calculation (other forms of Income)

1. Social Security and Supplemental Security Income – CTCAC prefers 3rd Party Verification directly from the source. However, we will also accept the current year's Social Security Award letter in lieu of 3rd party documentation for regular Social Security

and the most current verification letter for Supplemental Security income.

2. Pensions, Annuity Payments, or any other form of recurring payment (excluding gifts) – CTCAC will accept a statement/letter from the entity providing the payment in lieu of 3rd party documentation

3. Gifts – CTCAC will accept a signed and dated statement from the person providing the gift indicating the amount and frequency of the gift. An updated statement must be in file at each annual recertification.

4. Asset Calculation – CTCAC will follow the guidelines set forth in HUD Handbook 4350.3 Chapter 5, Rev. 2 to determine the household's Asset Income. CTCAC policy requires all assets over \$5000 must be third party verified.

E. CTCAC Required Forms

The analyst will verify the following items are in the file:

1. Tenant Income Certification (TIC) with Supplemental Demographic Data (*revised March 2012*)
2. Tenant Income Certification Questionnaire (TICQ) (June 2001) (*revised March 2012*)
3. Lease
4. Child Support Verification forms (June 2004) (*revised 2007*)
5. Under \$5000 Asset verification form or third party documentation of assets if over \$5000
6. Student Status (if applicable)
7. Zero Income Certification (if applicable) (*revised 2009*)
8. Pay stubs – new move-in (*June 2004*)
9. Good Cause Eviction Lease Rider (July 2005) (*revised March 2012*)
10. Financial Aide Verification form (if applicable) (*July 2006*)
11. Marital Separation Status Form (if applicable) (*May 2007*)
12. Single Parent Full-time Student Self Certification (if applicable) (*July 2008*)
13. Former Foster Care Status (if applicable) (*January 2009*)
14. Supplemental Demographic Data Form for Existing Households (*Nov. 2010*)
15. Live-in Aide Verification Form (*new January 2012*)

F. Supplemental information

CTCAC will review any supplemental information, telephone clarifications, and/or self affidavits to determine legitimacy or to aide in the determination of income eligibility of a tenant. If the file still contains discrepancies, CTCAC will request additional supplemental information.

G. Rent Ledger

On the day of the inspection, CTCAC will need to see the entire rent ledger history for the

current tenants in the units selected in the 20% sample. All charges (excluding HAP assistance), will be verified against the current tax credit maximum rent limits and Gross Rent Floor (if applicable).

Part 720 Physical Inspection

CTCAC will conduct onsite physical inspections of a minimum of a 20% random selection of the units on the property based on the Uniform Physical Condition Standards (UPCS) established by HUD and required by the IRS. A complete listing of the UPCS requirements can be found at http://www.hud.gov/offices/reac/pdf/pass_dict2.3.pdf . The following is the breakdown by room that CTCAC uses:

Kitchen –

- Turn on lights
- Test hot water
- Test garbage disposal unit
- Check all burners on stove
- Inspect oven for stored flammables (paper, plastic, wood)
- Turn on hood light and fan above stove
- Check for excessive grease build-up
- Check under kitchen sink for leaks
- Look for any signs of pests (cockroaches, ants, etc.).
- Note if there is excessive garbage overflowing in kitchen as this can cause a pest problem.
- Check out ceilings and floors to see if there are any problems.

Bathroom –

- Check lights and exhaust fan
- Flush toilet
- Check GFI on outlets
- Visual of toilet area to see if there is any possible water leakage.
- Visual of bathtub area to check for possible mold.
- Visual of floor and ceiling for holes, water, or mold problems from unit above, etc.
- Note anything unusual that is causing problems in bathroom.

Bedroom –

- Check light switches
- Check closet doors
- Check ingress/egress to bedroom doors
- Verify window is not blocked above level of window sill
- Check ceilings for leaks
- Check walls for holes
- Check for exposed wiring
- Look for items hanging on fire sprinklers
- Test windows for ease of opening/closing

Water heater / HVAC closet –

- Check for storage of flammables.
- Check to if water heater is gas fired (per CTCAC regulations)
- Verify water heater is strapped or secured for earthquake preparedness (per California law).
- Check for leaks.
- Verify the vents on water heater door are free of debris and that air is able to flow in and out.
- Check for stored items (may pose fire hazard)
- Check for pests (spiders, rodents) and built up debris (leaves)

Smoke detectors –

- Test all smoke detectors to ensure they are working properly.
- If a unit has no operable smoke detector working management must correct the problem before CTCAC leaves property and CTCAC will need to re-inspect. *Please Note: This is also a required reportable offense on Form 8823 even if corrected onsite.*
- Any smoke detector that is chirping and needs a battery replaced is a no pass.
- Any smoke detector that has been disconnected is a no pass.
- Any smoke detector that is not installed correctly is a no pass.
- If the unit has two stories a minimum of one smoke detector downstairs and on upstairs. A single smoke detector unit on the wall between floors will not qualify.

Miscellaneous –

- Verify carpeting and flooring is in good condition
- Verify front door locks properly.
- Check doors for holes / hinges aligned.
- Verify ingress/egress for all doors (doors should open completely).
- Any furniture completely blocking the sliding glass door leading into patio or balcony is considered a fire hazard and will be noted.
- Verify no windows are blocked
- Verify all overhead light covers are in place
- Verify all units designated as ADA meet all requirements
- Check railings in stairwells
- Check for cracked windows
- Check for missing screens
- Any internal rooms that are locked and management does not have a key is a no pass/failed inspection.

External Inspection and Common Areas –

- Check for damaged stucco or other external issues
- Check for standing water
- Check to see that all buildings and units are well marked and identified and there is good lighting throughout grounds.
- Look for trip hazards

- Verify ADA requirements are met (parking, ramps, etc.)
- Check Pool Area for maintenance and fence
- Verify tot-lot is safe and in good repair
- Verify laundry rooms are safe and in good repair
- Verify landscaping is maintained
- Verify good condition of roof
- Check emergency lighting in enclosed hallways

Automatic Fail –

- Any units that management cannot enter due to missing/misplaced keys.
- Two or more Units missing **all** smoke detectors.

Part 730 Findings Letter

The CTCAC Analyst performing the inspection will notify the owner of the results of the inspection via letter within **30** days of the inspection. The letter will contain an itemized list of file and/or physical noncompliant issues as well as the date by which the owner must correct the issues noted.

Part 740 Correction period

The results letter will provide a date when the owner’s response to the issues noted is due. This is known as the “correction period”. **Please note the Owner’s Response due to CTCAC must be sent by USPS mail.** CTCAC can no longer accept faxed or e-mailed Owner’s Response materials. Extensions beyond the date noted must be made in writing either via letter or e-mail to the analyst who performed the inspection. Extensions are granted at the discretion of the CTCAC Program manager only. Additionally, please note that certain issues even if corrected within the Correction Period, will automatically generate an IRS Form 8823. These issues include (but are not limited to) Level 3 UPCS violations, over-income households, overcharged-rent issues, and vacant-unit violations.

Part 750 Mixed-Income Properties

Properties with both market rate and tax credit units have additional areas that are monitored in closer detail than properties with 100% LIHTC units. These areas are on a per building basis rather than a property-wide basis. They are:

A. HERA and Mixed-Income Properties

The passage of the Housing Economic Recovery Act (HERA) Bill of 2008 (HR 3221) **does not** impact mixed-income properties in any way. All existing CTCAC regulations remain including the requirement of annual recertifications.

B. Next Available Unit Rule (140% rule)

If the income of the occupants of a qualifying unit increases to more than 140% of the applicable income limitation (based on the Set-aside for the property - 40/60 or 20/50), the unit may continue to be counted as a low income unit as long as the unit continues to be rent-restricted and the next unit of comparable or smaller size is occupied by a qualified low-income tenant. Please remember CTCAC would like you to track when units exceed the 140% NAU Rule and can request a report evidencing compliance with the NAU Rule.

1. To monitor the Next Available Unit Rule, CTCAC may ask to see a tracking spreadsheet of the units in the building. The spreadsheet should show the following:
 - Number of LIHTC units currently in place
 - Number of Market units currently in place
 - Number of units currently under the NAU rule
 - The date the NAU rule went into effect per unit
 - The move-in dates for all units, market and LIHTC
 - Any marketing used to advertise the next unit as LIHTC.

Please Note: Tracking the Next Available Unit Rule (140%) can only be done by performing a full income and asset recertification on the anniversary move-in date of each tenant that occupies a LIHTC unit at a mixed-income project.

C. Applicable Fraction / Eligible Basis

The low-income housing credit amount is based on certain costs associated with a **building** (eligible basis) and the portion of the **building** (applicable fraction) that low-income household occupy. The ratio of LIHTC units to Market-rate units can be found on the Form B's submitted by the owner to CTCAC prior to receiving the Forms 8609 for the property. CTCAC highly recommends management obtain a copy of the Form B per building from the ownership to maintain the correct Applicable Fraction in the number of required LIHTC units.

To monitor the Applicable Fraction/Eligible Basis, CTCAC will compare the ratio of LIHTC units to Market units, by comparing the PSR (Project Status Report), submitted by the owner as part of the pre-inspection documentation requirements, to the Form B's found in the CTCAC File. Additional inquiries may be made on-site if the ratio's are found to be incorrect.

CTCAC will not approve the moving of an Exempt Manager's unit. This applies to moves within the same building and to another building, as it may affect the Applicable Fraction of the buildings.

Part 760 Service Amenities Verification

For all 9% competitive Projects awarded credits on or after 2010, as part of the on-site audit, CTCAC staff will verify that supportive services are being provided in accordance with the owner's service amenities commitments, as documented in the Regulatory Agreement. The verification process will include:

- Interview with a tenant or tenants who are receiving support services;
- Interview with a services staff person employed by the project sponsor or a partnering service provider.
- Review of documents verifying the provision of supportive services, such as (but not limited to):
 - Informational materials provided to tenants about available community resources (e.g. referral binder or handbook)
 - Materials provided to tenants about the availability of services provided on-site (e.g. services brochure, monthly activities calendar, flyers, etc.)
 - Sign-up sheets for classes and other group activities
 - Sign-up forms or registration forms for afterschool or childcare program
 - Individual client files or other record-keeping system for those projects where tenants receive individualized services, such as case management or health and wellness services. Note that CTCAC staff will not request to see contents of confidential client files, but instead will verify that there is a system for maintaining documentation about services provided to clients.
 - Up to date contracts and MOUs with service providers (if applicable)
- Inspection of service amenities space (e.g. service staff offices, classroom space, community room, etc.) to ensure that space is of sufficient size and provides sufficient, accessibility and privacy to accommodate the services being provided.
- Prior to the site visit, CTCAC staff will review the most recent Owner's Annual Support Services Certification (SSC) and may ask questions relating to the information provided. **Note:** Project sponsors who wish to modify their support services program must request approval in writing from CTCAC prior to making any changes. (*See Section V Part 540 (G)*)