
Preface

This Inspection Compliance Guide is a reference guide for the compliance inspections of developments assisted with Indiana Housing & Community Development Authority (IHCDA) resources. It is designed as a guide to answer questions regarding procedures, rules, and regulations that govern these assisted Developments. This guide should be a useful resource for Owners, Developers, Management Companies, and on-site management personnel. It provides guidance with respect to Indiana Housing and Community Development Authority's (IHCDA's) administration of inspecting for compliance under Section 42 Rental Housing Tax Credit, HOME Investment Partnership Program, Community Development Block Grant, and the Affordable Housing and Community Development Fund ("Development Fund").

In order to realize the benefits afforded by the IHCDA programs, it is essential that each building remain in compliance. An especially critical time to ensure compliance is at the time of initial lease-up.

IHCDA and its monitoring staff are committed to working closely with Owners, management agents, and on-site personnel to assist them in meeting their compliance responsibilities.

Please note, however, that this guide is to be used only as a supplement to compliance with the Code and all other applicable laws and rules. This guide should not be considered a complete guide to physical inspection compliance. The responsibility for compliance with Federal program regulations lies with the Owner of the building for which the funding is allowable.

Disclaimer

Because of the complexity of funding regulations and the necessity to consider their applicability to specific circumstances, Owners are strongly encouraged to seek competent professional legal advice regarding physical inspection compliance issues. **IHCDA's obligation to monitor for compliance with the requirements of the Code does not make IHCDA or its subcontractors liable for an Owner's noncompliance.**

The publication of this guide is for convenience only. Your use or reliance upon any of the provisions or forms contained herein does not, expressly or impliedly, directly or indirectly, suggest, represent or warrant that your Development will be in compliance with the requirements of the funding programs. The Indiana Housing and Community Development Authority and contributing authors hereby disclaim any and all responsibility of liability, which may be asserted or claimed arising from reliance upon the procedures and information or utilization of the guide. You are urged to consult with your own professionals.

Physical Inspection Parameters

Indiana Housing & Community Development Authority (IHCDA) conducts physical inspections on Tax Credit assisted, HOME, Community Development Block Grant (CDBG), and Indiana Affordable Housing and Community Development Fund (Development Fund) developments in order to ensure that the residential buildings meet the minimum construction standards, health & safety, HUD Uniform Physical Condition Standards, IHCDA Rehabilitation Standards, Lead based paint laws, and ADA requirements.

Developments assisted with IHCDA resources are required to be habitable, and maintained in that condition during the compliance period.

The Department of Housing & Urban Development (HUD) requires housing to be Decent, Safe, Sanitary, and in Good Repair. IHCDA requires housing to be Decent, Safe, Sanitary, and in Good Repair, and affordable for some of its funding programs. The IRS requires housing to be habitable and the IRS gives a definition of the word habitable, which is to be in Compliance with all State/Local Building Codes, Health/Safety Codes, and the HUD Uniform Physical Condition Standards.

The Term Building Codes includes the disciplines of:

Plumbing	Electrical	Mechanical	Structural	ADA/Accessibility
Swimming Pool	Fire	Lead Based Paint	Local Ordinances	Elevator

Noncompliance may be identified when IHCDA reviews an owner's annual certification. The owner must certify that state or local authorities responsible for making inspections did not issue a violation report for any building or low-income unit in the project. If a violation notice or report was issued, the owner must attach a statement summarizing the violation report/notice (or a copy) to the annual certification submitted to the state agency. The owner must also state whether the violation was corrected.

Tax Credit Inspections

Types of IHCDA Tax Credit Inspections

There are four types of physical inspections conducted by IHCDA for Tax Credit Developments:

- 1) Capital Needs Assessment Comparisons
- 2) "Pre-8609" Inspections
- 3) Compliance Period Inspections
- 4) Special Inspections

Capital Needs Assessment Comparisons

Capital Needs Assessment Comparisons are conducted on existing developments when applications have been submitted for Section 42 Rental Housing tax Credit and Bond deal rehabilitations.

When applications are submitted for rehabilitation of Tax Credit and Bond Developments, they are required to include a Capital Needs Assessment for the development, which must be conducted by an Indiana Licensed Professional Engineer or an Indiana Licensed Architect. Out of State professionals must be licensed in the State of Indiana prior to beginning any work pertaining to any development in Indiana.

Capital Needs Assessments need to address the current overall physical condition of the development, its existing deficiencies, and identify all material building code violations that affect the development's use and its structural or mechanical integrity.

Capital Needs Assessment Comparisons are conducted on rehabilitation developments in order to compare the submitted assessments to the IHCD A Assessment Inspection to verify the accuracy and identify any deficiencies of the submitted assessment.

The Pre-8609 inspection

Pre-8609 inspections are inspections conducted prior to issuing IRS Form 8609. These inspections have been in effect since 2003 in order to ensure that Section 42 developments exist, to verify that the unique features and amenities are in place, and to verify compliance with all applicable building codes, ADA Laws, UPCS, and rehabilitation standards to ensure that the buildings are habitable per the IRS definition.

Additionally, for Pre-1978 developments, rehabilitation work is required to comply with the Lead Based Paint Pre-Renovation Rule, the State of Indiana's Lead Based Paint Rules, and all applicable EPA and OSHA requirements concerning Lead Based Paint.

The Pre-8609 inspection is scheduled after all buildings in the development are placed in service.

An inspection request Form is required to be completed and forwarded to IHCD A when ready for the inspection. This should be done as close to the "Placed In Service" date as possible. However, the development is required to be 100% complete, ready for occupancy, and ALL unique features/amenities in place. The Pre-8609 Inspection Request Form is located in the Qualified Allocation Plan, Form H.

These are visual inspections conducted in conjunction with the use of electrical testing equipment. Any non-compliance issue observed will be documented at the site, and any building code issues will be verified with the applicable building codes for confirmation of the existence of any non-compliance issues if necessary.

Code research is completed prior to writing the final inspection report when needed. All applicable codebook references and code sections for code related non-compliance issues are documented in the report with the correlating non-compliance code issue.

During this inspection, 20% of the apartment units and 100% of the common areas will be inspected. All accessible areas need to be available for inspection, which includes all storage rooms, equipment rooms,

closets, maintenance areas, garages, etc.... (All Areas Accessible to tenants, management, owners, & Staff).

After the report is written, it is forwarded to the Multi-family Analyst who will review the report and request the correction documents from the owners.

The correction documents and an owner signed Affidavit are required for all major/life safety and health issues prior to issuing 8609s.

The minor issues are required to be corrected as well, however, will not hinder the issuance of the 8609s.

Should minor issues go unresolved, an 8823 may be issued and Tax credits may be recaptured.

Compliance Period Inspections

The Guide for Completing Form 8823 tells States to inspect 20% of the tax credit units by the end of the 2nd calendar year following the year the last building is placed in service and then 20% every 3 years.

Compliance periods have a minimum of 30-years or more depending on the extended use options the owner chose when completing the application for tax credits.

These inspections are usually contracted out to a 3rd party inspection agency, who will schedule and complete the inspections.

When the inspection agency calls to schedule an inspection, be sure to obtain a phone number in case of an emergency. Prior to performing an on-site development physical inspection, IHCD or the 3rd Party inspection agency will notify the owner and management company 1 week prior to the inspection of the approximate time the inspection will take place.

Do not assume the inspector is not coming if they are late. The inspector will schedule many inspections in the same geographical area of the State in order to be cost effective for all involved. Sometimes they may run a little behind schedule. However, they will always be there unless they call to indicate that they will not.

When the inspector arrives at the site, units will be chosen at random for the inspection.

% Inspected

The IRS requires that 100% of the common areas and 20% or more of the apartment units be inspected. All areas need to be accessible for the inspection. Sometimes additional units may be inspected depending on the outcome of the initial units inspected.

Special Inspections

Special inspections are conducted for various reasons. However, they are usually generated through complaints.

Special inspections usually are focused on the complaint issue. However, if other major issues are seen during special inspections, the issues will be documented and will be required to be corrected.

Complaints are not the only reason that special inspections may be conducted. Sometimes special inspections are generated from ambiguous correction documents being submitted to IHCD, where questions arise about the repair done to correct the issues at hand or if proper materials were used for the corrections.

Special Inspections are also done to verify that corrections are made after IRS Form 8823 is issued for non-compliance and is accompanied by correction fees.

Compliance Period Inspection Criteria

The developments are inspected under the parameters of the HUD Uniform Physical Condition Standards. Issues documented in the inspection report will have a severity level of 1, 2, or 3, where 3-would be the highest level of severity for non-compliance issues.

Site, Building Exteriors, Building Systems, Dwelling Units, and Common areas are all observed during inspections. All are required to be free of adverse conditions and health & safety hazards.

IRS Form 8823

Item 11C on the IRS Form 8823 explains the inspection protocol and reporting requirements.

When noncompliance is identified or there has been a disposition of a building (or interest therein), the state agencies are required to notify the Internal Revenue Service using IRS Form 8823 Low-Income Housing Credit Agencies Report of Noncompliance or Building Disposition.

A CORRECTED 8823 is issued when the non-compliance issues are corrected within the correction period. This is now standard reporting procedure. According to the IRS 8823 Guide, if a state agency determines that the owner either remedied the noncompliance or remains out of compliance, then a Form 8823 must be filed with the IRS.

Non-Compliance 8823s will be issued if correction periods expire without corrections being completed, or if there is a failure to submit proof of the corrections with an owner signed Affidavit.

For developments where correction documents are not received by the end of the correction period a Non-Compliance 8823 is issued and Correction fees are assessed.

Correction fees are assessed when non-compliance 8823s are issued and re-inspection of correction documentation, or re-inspection of the physical inspection non-compliance issues need to be completed prior to notifying the IRS that the non-compliance issues have been corrected. This is done through a corrected 8823.

The correction fee for minor issues is \$100.00 per apartment unit with minor issues.

The correction fee for major issues is \$200.00 per apartment unit with major issues.



Common area issues will bring all apartment units in the non-compliance building out of compliance. If a major issue was revealed in a common area, such as an inoperable emergency light, and there were 16 units in the building, correction fees would add up to \$3,200.00.

Non-compliance issues in areas such as the site, clubhouse, and swimming pool, etc. will bring all apartment units in the development out of compliance.

Correction period extensions can be approved for up to 6-months when requested with a significant reason for needing an extension. If you see that more time will be needed for corrections, please contact IHCDCA to discuss an extension.

Community Development Inspections

Community Development Inspections are conducted on developments that receive funding from the HOME, CDBG, and Development Fund programs.

Types of Community Development Inspections

- 1). Interim Inspections
- 2). Final Inspections
- 3). Periodic Inspections

Interim Inspections are conducted to verify that a certain percentage of work has been completed and to verify compliance with Indiana Building Codes and IHCDCA Rehabilitation Standards.

Final Inspections are conducted to verify all work is completed and in compliance with Indiana Building Codes & IHCDCA Rehabilitation Standards

Periodic Inspections are conducted on funded rental units and are ongoing through the end of the compliance period.

Inspection Protocol

Interim Inspections and Final Inspections are conducted on assisted units. The inspection protocol entails verifying that the Development Design and Energy Efficiency features are in place, compliance with all applicable building codes, ADA Laws, Lead based paint laws, UPCS, and rehabilitation standards to ensure that the buildings are habitable. For CDBG funded developments, all rehabilitation work will need to meet current Indiana Building Codes, and work must be completed and inspected within 18-months of being funded.

For all HOME funded developments, all rehabilitation work will need to meet current Indiana Building Codes, the entire dwelling must be in compliance with IHCD Rehabilitation Standards, and rehabilitation work must be completed and inspected within 2-years of being funded.

Periodic Inspections are inspected under the parameters of the Uniform Physical Condition Standards. Periodic Inspections are conducted until the end of the associated compliance periods, and may extend 30 years or more. Owner Occupied rehabilitations do not require periodic inspections, but do require interim and final inspections.

% Inspected

For Owner Occupied rehabilitations, 100% of the funded dwellings are inspected. Rental rehabilitation inspections are conducted on 20% of the units and 100% of common areas.

Frequency of periodic inspections

Developments containing 1-4 units will be inspected every 3 years.

Developments containing 5-25 units will be inspected every 2 years.

Developments containing 26+ units will be inspected every year.

All Inspection reports

Periodic inspection reports generated from the inspections will give a description of the development which includes building descriptions, types of life safety devices, types of heating and air conditioning appliances, the types of common spaces, utilities, and a general description of the condition of the development.

The report will also identify all apartment units and buildings inspected and any non-compliance issues observed.

Additionally, the report will include correction periods and severity levels for each non-compliance issue identified as per IRS requirements.

After the inspection, the 3rd Party inspection agency will forward the reports to IHCD, where they are reviewed, processed, and forwarded to the applicable owners and management companies.

Pre-8609 Inspection reports will identify non-compliance issues, the buildings and units inspected, and identify Unique Features, Universal Design features, and Energy Efficiency Features that were not in place at the time of the inspection.

When the report is completed at the office after the inspection, it will be forwarded to the Multi-family analyst who will forward it to the development owners with requests for corrections with a 30-day

response needed for corrections. Supporting documents for the corrections and an owner signed Affidavit are required to be forwarded to the analyst for proof of corrections.

Correction Periods for All Physical Inspections

All major and/or life safety issues will be required to be corrected immediately and should be given precedence over minor issues. The correction documents and Owner Signed Affidavit, for major issues, are due in the IHCDCA office no later than 30-days from the date of the inspection cover letter.

Exigent Life Safety Issues

IHCDA has developed a Critical Violations Letter. If exigent life, health, or safety issues are identified during an inspection, the issues are documented on the letter, a copy is left at the site prior to the inspector leaving, and the issues are required to be corrected within a 24-hour period. The correction documentation is required to be submitted to IHCDA within 72-hours. **NOTE:** Critical Violations Not corrected within the 24-hour correction period will be assessed fines of \$250.00/day of non-compliance.

Other non-compliance issues are required to be corrected and the corrections must be completed within 30-days. The correction documents and the Owner Signed Affidavit are due in the IHCDA office no later than 90-days from the date of the inspection cover letter.

Should more time be required to correct minor issues, submit to IHCDA in writing a request for an extension and a valid reason for the request.

Correction Documents AND Owner Signed Affidavits are required for verification of corrections. When forwarding your correction documents, please organize the correction documents and work orders to correlate in the same order as documented in the inspection report. Organizing the correction documents will help in determining that all issues are addressed and expedite the review and correction notification process.

Correction documents include copies of work orders, receipts, and/or invoices that identify the correction, with a brief description of the way it was corrected and completion date for the non-compliance issues. It is very important to include a completion date for each correction. Correction dates are required in reporting to the IRS.

After the correction documents and Owner Signed Affidavit have been received by IHCDA, they are carefully reviewed and a letter will be forwarded to the owner and management company indicating that no further corrective actions are needed at this time if all documentation is in order.

Should there be missing and/or unclear correction documents or Affidavit, IHCDA will contact the owner and/or Management company to identify any deficiency of correction documents.

Vacant Units

According to IRS Section 42 rules, units must be maintained in a habitable condition and in a rent ready state. If the owner or management company determines that a unit, building or an entire development is



not in compliance with the RHTC program requirements, IHCD A should be notified immediately and a plan formulated in writing to bring the development back into compliance. Vacant units boarded up to prevent looting/break-ins are required to be habitable and rent ready as well. Units that are not habitable are also required to be reported to IHCD A immediately.



Casualty Losses

Unfortunately, earthquakes, tornados, floods, and fires sometimes damage or destroy Section 42 developments. Should this occur, please remember to report Casualty Losses to IHCD A within 10-days of an incident. An Owner that experiences a loss of unit(s) due to fire or other circumstances, must inform IHCD A of the loss in writing within 10-days of the incident. Also, the Owner must submit a plan to IHCD A within 30-days that sets a timeframe for reconstruction or replacement of lost units.



IHCD A must report the loss and replacement of the units to the IRS after 90 days. If the units have not been fully replaced, IHCD A will attach a copy of the Owner's plan and timeframe for

replacement to its report. Once all units have been replaced, IHCDCA will then report the replacement of the lost units.

If an Owner fails to report a Casualty Loss to IHCDCA within 10-days, IHCDCA will report the incident as a noncompliance to the IRS with IRS Form 8823. This information on Casualty Loss can be found in the current Compliance Manual.

After the units affected are brought back into a rent ready state, IHCDCA will report the time frame the unit(s) were not rentable to the IRS through IRS Form 8823.

Common Non-Compliance Issues Cited

Building Exterior:

- ☐ Missing/damaged windows & window screens
- ☐ Clothes dryer vents clogged with lint
- ☐ Screens at clothes dryer vent terminations
- ☐ Damaged clothes dryer vent backdraft dampers
- ☐ Damaged/missing gutters and downspouts
- ☐ Vegetation growing out of storm drainage gutters
- ☐ Missing sections of siding/soffits
- ☐ Damaged siding
- ☐ Deteriorated head and bed joints in masonry veneer
- ☐ Foundation deterioration
- ☐ Missing/broken light fixture globes
- ☐ Electrical outlet covers missing
- ☐ Missing storm drainage splash blocks
- ☐ Peeling/deteriorated paint
- ☐ Missing/damaged roof shingles
- ☐ Vegetation too close or touching building
- ☐ Broken entry doors/closers
- ☐ Broken glazing/sidelights
- ☐ Cracked/heaved patios/steps
- ☐ Deteriorated balcony guard rails/balusters
- ☐ Entry doors rusted
- ☐ Exposed electrical at disconnect boxes
- ☐ Missing/damaged condensing units
- ☐ Inadequately insulated AC condensing lines



Building Systems:

- ☐ Smoke detectors missing or missing batteries
- ☐ Inoperable fire alarm panels
- ☐ Missing fire extinguishers
- ☐ Expired inspection tags on fire extinguishers
- ☐ Openings in electrical panels
- ☐ Fire doors chained open
- ☐ Missing piping at water heater safety valve



- ☐ Discharged fire extinguishers
- ☐ Fire alarm panels showing trouble and in the silence mode
- ☐ Inoperable emergency lights
- ☐ Fire rated doors propped open or would not fully close & latch
- ☐ Flammable storage cabinets not being electrically bonded/grounded

Site:

- ☐ Improper storm water drainage/standing water
- ☐ Abandon vehicles
- ☐ Trash overflowing dumpster
- ☐ Grass/weeds high
- ☐ Bare ground cover
- ☐ ADA guard rails damaged
- ☐ Deteriorated sidewalk/steps
- ☐ ADA signs missing
- ☐ Overgrown sidewalks (weeds/grass)
- ☐ Negative slope around buildings with ponding water
- ☐ Trip hazards
- ☐ Excessive gaps in walks
- ☐ Drives/parking areas in need of seal-coating/stripping/repairs
- ☐ Deteriorated parking and drives



Common Area:

- ☐ Dirty walls
- ☐ Holes in walls/doors
- ☐ Deteriorated carpeting/floor covering
- ☐ Damaged fire extinguisher cabinets
- ☐ Loose/damaged stairway handrails/guardrails
- ☐ Broken interior doors
- ☐ Improper storage of gasoline or gasoline powered equipment
- ☐ Disconnected clothes dryer exhaust connectors
- ☐ Lint covered floors in laundry rooms
- ☐ Laundry room doors propped open
- ☐ Cracked/broken electrical cover-plates
- ☐ Missing apartment identification numbers/letters

Dwelling Unit:

- ☐ Fogged thermo pane windows
- ☐ Construction dust covers on smoke detectors
- ☐ Inoperable electrical GFCI outlet receptacles
- ☐ Water heater safety valve piping missing
- ☐ Electrical Circuit panels not labeled (circuits not identified)
- ☐ Missing smoke detectors
- ☐ Disabled smoke detectors
- ☐ Grease laden range tops/burners
- ☐ Garbage debris in unit



- ☐ Mold/mildew present
- ☐ Filthy carpeting/flooring/walls
- ☐ Holes in walls/doors
- ☐ Missing cabinet faces/doors
- ☐ Deteriorated bathroom sealant
- ☐ Deteriorated Kitchen sealant
- ☐ Loose/leaking toilet base
- ☐ Faucet leaks
- ☐ Loose arcing electrical outlets
- ☐ Broken cracked electrical cover-plates
- ☐ Missing light fixture globes
- ☐ Loose/broken door knobs/levers
- ☐ Openings in electrical panels
- ☐ Toilet runs
- ☐ Bathroom moisture exhaust fans inoperable and/or disconnected
- ☐ Electrical panels working clearances/clear floor space with storage in front of panel
- ☐ Ceramic tiles deteriorated/broken/in need of grouting
- ☐ Loose plumbing fixtures
- ☐ Inoperable/malfunctioning appliances
- ☐ Water damage
- ☐ Water/plumbing leaks
- ☐ Screws installed in the clothes dryer exhaust ducts
- ☐ Smoke detectors not being electrically interconnected
- ☐ Electrical GFCI receptacles would not trip when tested
- ☐ Insufficient combustion air provided for fuel burning appliances
- ☐ Open grounds or reversed polarity on electrical outlets



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IHCDA Resources:	http://www.in.gov/ihcda/
Tax Credit Compliance Page:	http://www.in.gov/ihcda/2519.htm
Compliance Manual:	http://www.in.gov/ihcda/files/2009_Compliance-_Manual_Final.pdf
Multi-family Notices:	http://www.in.gov/ihcda/2520.htm
Qualified Allocation Plan:	http://www.in.gov/ihcda/2514.htm

Community Development Compliance page:	http://www.in.gov/ihcda/3099.htm
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