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LIHTC File Audits: What a Third-Party Compliance Review Should Include

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For owners and property management companies participating in the Low-Income Housing Tax Credit (LIHTC) program, tenant-file accuracy is one of the most important components of ongoing compliance. A third-party LIHTC file audit provides an independent review of the documentation and calculations used to establish household eligibility and maintain compliance throughout the affordability period.

The best time to discover a compliance problem is **before** a state housing finance agency or other monitoring authority identifies it. An independent review can uncover missing documentation, calculation errors, rent problems, student-rule concerns, inconsistent dates, and procedural weaknesses while the owner still has an opportunity to research the issue and take appropriate corrective action.

> **A quality LIHTC file audit should answer one central question: Does the tenant file clearly demonstrate that the household and unit met the applicable LIHTC requirements at the relevant certification date?**

1. Household Eligibility

The review should confirm that household composition and eligibility are adequately supported. The auditor should compare the application, Tenant Income Certification, lease, verifications, and other relevant documents to make sure household members are consistently identified and the file supports the household's eligibility at move-in and at later certifications when required.

2. Income Calculations

Income is one of the most common areas for LIHTC findings. A third-party reviewer should recalculate applicable wages, benefits, self-employment income, recurring contributions, and other income sources and confirm that the correct methodology was used. The reviewer should also identify unexplained discrepancies between pay information, verifications, applications, certifications, or other documentation.

3. Assets and Asset Income

The audit should evaluate whether assets were properly identified, documented, valued, and treated under the requirements applicable to the certification. Bank accounts, investments, real property, trusts, retirement assets, disposed assets, and other asset categories may require different treatment. The file should support both the asset determination and any resulting income.

4. Student Status

LIHTC student rules can create significant eligibility issues. The auditor should determine whether student status was addressed for all applicable household members and whether a household composed entirely of full-time students meets a permitted exception. Any exception relied upon should be clearly supported in the tenant file.

5. Rent Compliance

The review should confirm that the unit's gross rent did not exceed the applicable LIHTC maximum. This requires more than checking the tenant-paid portion of rent. The auditor should review the applicable rent limit, unit size, income designation or set-aside, mandatory charges when relevant, and the utility allowance used in the gross-rent calculation.

6. Utility Allowances

An incorrect or outdated utility allowance can turn an otherwise acceptable rent into a compliance problem. A third-party review should confirm that the property used an applicable utility allowance, implemented changes within required timeframes, and retained documentation supporting the source and effective date of the allowance.

7. Required Forms and Supporting Documentation

The file should contain the documents required by the applicable state agency, owner procedures, and program requirements. Depending on the file, this may include applications, income and asset verifications, student-status documentation, certifications, leases, questionnaires, affidavits, eligibility forms, and other state-specific documents. The audit should identify forms that are missing, incomplete, inconsistent, or outdated.

8. Signatures and Dates

Unsigned and undated documents are easy to overlook during daily operations but frequently create problems during monitoring. Reviewers should check required signatures, signature dates, certification dates, lease dates, verification dates, and other timing requirements. Dates should make chronological sense and support the effective date of the certification.

9. Effective Dates and Certification Timing

The reviewer should verify that move-in, annual recertification, interim, transfer, and other relevant effective dates are consistent throughout the file and comply with applicable requirements. Late or improperly timed certifications should be clearly identified so management can evaluate the appropriate response.

10. File Consistency and the Compliance Story

A strong tenant file should tell a coherent story. Information appearing on the application, certification, lease, verification documents, and internal worksheets should not conflict without explanation. An independent auditor should flag discrepancies and determine whether additional documentation or a compliance note is needed to explain how the final eligibility determination was reached.

11. Correction Procedures

A useful third-party audit should do more than mark a file 'failed.' Findings should be specific enough for property staff to understand what is wrong and what information may be needed to address it. Corrections should be made transparently and in accordance with applicable agency procedures; documents should not be backdated or altered in a way that obscures the original record. When appropriate, the consultant can re-review corrected files to confirm that identified issues were resolved.

12. Patterns Across Multiple Files

The greatest value of a portfolio or property-level audit often appears when findings are analyzed collectively. If ten files contain the same income-calculation mistake, outdated form, missing verification, or utility-allowance error, the problem may be procedural rather than isolated. A strong third-party review should help management identify those patterns so policies, training, software workflows, or quality-control procedures can be corrected.

What Should an Owner Receive After the Audit?

The deliverable should be useful to both property staff and leadership. Depending on the scope, an owner may receive file-by-file findings, a deficiency or correction report, risk classifications, recurring-trend observations, management recommendations, and a re-review process. For larger portfolios, an executive summary can help leadership see whether the primary risk is isolated to individual files or reflects a broader training or process problem.

Why Audit Files Before a State Monitoring Visit?

Waiting for the monitoring agency to discover a problem removes much of the owner's opportunity to be proactive. A pre-monitoring LIHTC file audit can identify missing documents and recurring errors before files are selected or reviewed externally. It also gives management an opportunity to evaluate questionable issues, locate supporting documentation, correct permissible deficiencies, retrain staff, and make sure policies are being followed consistently.

Pre-monitoring reviews can be particularly valuable after staff turnover, a management-company transition, rapid lease-up, a compliance backlog, a software conversion, or the discovery of recurring internal errors. Owners do not need to wait until a monitoring notice arrives to test the quality of their files.

How Many LIHTC Files Should Be Reviewed?

The appropriate sample depends on the owner's objective. A property preparing for monitoring may want a targeted review designed around likely agency exposure. A new owner or management company may want a broader sample to assess inherited files. An organization experiencing repeated compliance errors may benefit from reviewing a larger percentage of files until the pattern is understood. High-risk or complex files can also be intentionally included rather than relying only on a random sample.

Independent Review Adds a Different Level of Quality Control

Internal compliance review is valuable, but internal teams can become accustomed to the same forms, processes, and assumptions. An outside reviewer approaches the file without that history. That independence can make it easier to identify inconsistent practices, documentation gaps, calculation errors, and policies that are not being followed in actual operations.

LIHTC File Audit Support from Housing Consultants of America

Housing Consultants of America provides third-party LIHTC file reviews and affordable housing compliance support for owners, management companies, and property teams. Reviews can be structured around move-in files, annual recertifications, pre-monitoring preparation, acquisition due diligence, corrective-action work, portfolio quality control, or recurring third-party compliance oversight.

HCA can also assist organizations that discover broader problems during an audit through compliance training, recertification backlog recovery, temporary compliance staffing, policy support, and corrective-action assistance. The goal is not simply to identify an error - it is to help the organization understand why the error occurred and strengthen the process that produced it.

Prepare Before the Monitoring Agency Arrives

LIHTC compliance problems are easier to manage when owners discover them proactively. A well-designed third-party file audit can provide an independent assessment of household eligibility, income and assets, student status, rent and utility allowances, forms, signatures, effective dates, and overall file quality. More importantly, it can reveal recurring weaknesses before those weaknesses become formal monitoring findings.

Compliance disclaimer: LIHTC requirements can vary by state allocating agency, placed-in-service date, regulatory agreement, elections, extended-use requirements, and layered funding programs. File-review procedures should be tailored to the requirements applicable to the specific property and certification period.