



AUDIT AND ADVISORY SERVICES
SANTA BARBARA, CALIFORNIA 93106-5140
Tel: (805) 893-2829
Fax: (805) 893-5423

March 26, 2024

To: Rosemary Peterson
Executive Director
UCSB Community Housing Authority

Re: **Faculty Housing**
Audit Report No. 08-24-0005

We have completed a limited review of the Faculty Housing internal controls as part of the 2023-24 annual audit services plan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by Academic Personnel, Community Housing Authority, Academic Senate, and the Executive Vice Chancellor during the review. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ashley Andersen".

Ashley Andersen

Director
Audit and Advisory Services

Enclosure

cc:

Chancellor Henry Yang
David Marshall, Executive Vice Chancellor
Chuck Haines, Vice Chancellor, Chief Financial Officer
Helly Kwee, Interim Academic Personnel Director
UCSB Audit Committee
Alexander Bustamante, Senior Vice President and Chief Compliance and Audit Officer

This page intentionally left blank.

UC **SANTA BARBARA**
Audit & Advisory Services

Audit Report

Faculty Housing – Internal Control Review

March 26, 2024

Performed by:

Antonio Mañas Meléndez, Associate Audit Director
Irene Camargo, Senior Auditor

Approved by:

Ashley Andersen, Audit Director

Report No. 08-24-0005

EXECUTIVE SUMMARY

OBJECTIVE

The primary purpose of the audit was to evaluate whether roles, responsibilities, and processes have been formalized and communicated to help achieve Faculty Housing program goals at the University of California Santa Barbara (UCSB).

The objectives of our audit were to determine whether:

- The Community Housing Authority (CHA) has clearly defined and documented roles and responsibilities over processes to manage the Faculty Housing Program.
- CHA and Academic Personnel (AP) have documented operating procedures to guarantee changes to the waitlist¹ are adequately tracked, justified, and documented.
- CHA has implemented adequate controls over the sales notification² process to ensure compliance with management documents³, housing regulations, and guidance.
- Adequate Faculty Housing Program information and communication is made available to CHA board members and faculty members:
 - CHA Board members receive consistent reports on the status of the Faculty Housing Program, including the status of the waitlist, sales and leasing statistics, development updates, compliance issues, and other relevant information.
 - CHA has published and provided comprehensive and transparent information about the Faculty Housing Program that could help set up expectations and minimize future misconceptions among faculty members.

CONCLUSION

Based on the results of the work performed within the scope of the audit, our review highlighted:

- There are opportunities to formalize the mission, authority, responsibilities, and reporting structures for the Faculty Housing Program and to set expectations of the roles and responsibilities of the CHA Board of Directors and CHA.
- Placing and removing faculty on the waitlist, used to manage faculty house purchases, are overall properly managed⁴. However, procedures are not documented to include adequate management, tracking, and reporting processes within the Faculty Housing Program to ensure accountability, efficiency, and compliance with management

¹ Waitlist: a list maintained for an opportunity to purchase faculty housing.

² CHA does not manage leases, but homeowners need to notify the University when they want to lease their properties.

³ Management Documents: Ocean View Common Areas Lease/Sublease agreement, Covenant, the Conditions, and Restrictions (CC&Rs), and Homeowners Association (HOA) Bylaws. See background information for more details.

⁴ See background section for details.

documents and guidance. Documenting procedures would help to retain institutional knowledge in case of turnover in the departments.

- Faculty Housing Program communications are not streamlined to provide a summary of consistent operational data that can assist CHA board members in strategic planning and executive decision-making and provide faculty members with a comprehensive overview of the affordable housing opportunities and processes.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. GOVERNANCE

OBSERVATION

Our work highlighted opportunities to formalize the mission, authority, responsibilities, and reporting structures for the Faculty Housing Program and to set expectations regarding the roles and responsibilities of the CHA Board of Directors and CHA.

Faculty Housing Program Governance

The developments of West Campus Point and Ocean Walk at North Campus (Ocean Walk) are regulated by their own set of documents⁵. These documents include:

- The Declaration of Covenants, Conditions, and Restrictions (CC&Rs) to establish rules, restrictions, and obligations for property owners within the development.
- The Home Owners Association (HOA) Bylaws. They include the day-to-day operations, including, but not limited to, maintenance of common areas, collection of dues, and addressing homeowner complaints and violations.
- Common Areas Lease provisions are legal stipulations entered into by and between The Regents of the University of California and the HOA providing the association leasehold interest in the housing community, including sublease of undivided interest terms and conditions. The West Campus Point has incorporated these stipulations within their CC&Rs, and Ocean Walk has formalized these provisions in a separate document.

The Escrow officer is required to provide each homeowner with the Bylaws for West Campus Point⁶ and Ocean Walk at the close of escrow to ensure compliance and documentation. We have not identified any documentation regulating the future development of the Ocean Road Housing Project. It could be convenient to have available all governing management documentation and amendments thereof for all developments on the CHA website.

Based on our work, we found that the CHA Board of Directors is responsible for the governance, oversight, and major decision-making as representatives of the UCSB Faculty Housing Program. The CHA performs the administration of the Faculty Housing Program. The CHA is in charge of the day-to-day management operations, coordinating the program initiatives to achieve affordable faculty housing, and ensuring that processes currently in place comply with governing management documents and housing regulations under their purview.

Even though the mentioned management documents provide some description of responsibilities related to overseeing and managing the development, we found that formalizing a charter for the Faculty Housing Program would help to set up expectations of the mission, authority, responsibilities, and reporting structures of the Faculty Housing Authority and those with the authority to make decisions on behalf of the University. The charter would also help to clarify what is and what is not the responsibility of the campus,

⁵ This set of documents is hereafter called Management Documents.

⁶ Amended in July 1990.

holding all parties accountable, and could enhance the efficiency and effectiveness of the Faculty Housing Program administration.

RECOMMENDATION

We recommend that the Community Housing Authority Board formalize the mission, authority, responsibilities, and reporting structures of the Faculty Housing Program.

MANAGEMENT RESPONSE

The Community Housing Authority Board will formalize the mission, authority, responsibilities, and reporting structures of the Faculty Housing Program.

Audit and Advisory Services will follow up on the status of these issues by October 31, 2024.

2. WAITLIST MANAGEMENT

OBSERVATION

We found that the processes for administering the waitlist that is used to track those interested in faculty housing are overall properly managed⁷. However, in the absence of detailed documented procedures, we found:

- Roles and responsibilities assigned to Academic Personnel (AP), CHA, and campus leadership related to the management of the waitlist have not been formally documented in a procedure. The role of CHA is to administer the sale of homes based on the order of priority from the waitlist, which the Office of AP provides.
- There is no documented workflow process detailing the management and administration of the waitlist and processes that involve AP, CHA, and campus leadership. Documenting sequential steps in the process will help define the administration of adding and justifying the removal of faculty members to ensure that the process is adequately managed. Incorporating responsibilities will help to identify and streamline business processes and increase efficiency.
- The waitlist does not track who has been removed. Identifying and tracking removals on the waitlist would require a review of the monthly removal updates, using information that is gathered by CHA. This type of review is a time-consuming activity with the current process design. Monthly removal updates are performed by AP, using information that is gathered by CHA staff and provided to AP.

Waitlist Entries

We noted the waitlist maintained by AP is consistent with the list managed by CHA, and we further determined that changes in the waitlist are properly justified and documented, and names to be omitted from the waitlist are communicated to AP to be removed.

AP is responsible for entering new senate faculty on the waitlist on the day they are notified that campus leadership approves the hiring. However, because academic appointment entries

⁷ See background section for details.

on the waitlist are managed independently by two AP Analysts⁸, it is possible that two appointments are not recorded in the chronological order they have been approved based upon the date AP receives the approval from campus leadership. Evaluating receiving the approved appointments in the same queue could improve efficiency and prioritize faculty based on the date and time the application was received. With the growing number of new faculty, it may be more efficient to capture the date and time the application was submitted to avoid potential waitlist priority conflicts if several applications are submitted on the same day.

We reviewed documentation regarding the management of the waitlist process at the University of California Irvine (UCI) to identify practices the UCSB Faculty Housing Program could incorporate. We found that their waitlist is determined by the faculty members' completion of a housing application, unlike UCSB's process of manually adding members to the waitlist after the application has been approved by campus leadership. By initiating an application process, the faculty member is responsible and encouraged to apply as soon as possible to be entered on the waitlist. Furthermore, with the inventory being low and an increase in academic recruits, this may be a more efficient way to manage the waitlist. Using a DocuSign faculty housing application form could improve efficiency and create a date and time stamp as a reference to determine the order applications are submitted.

Waitlist Removals

CHA is responsible for providing a monthly list of faculty members to be removed from the waitlist to AP based on whether they have purchased faculty housing, purchased in the community, asked to be removed, or turned down two opportunities to purchase homes of preference. AP then removes the faculty member, updating the waitlist.

We reviewed and verified that changes in the waitlist are properly justified and documented and determined that a total of forty-three (43) faculty members were removed during the fiscal year 2022-23. We selected fifteen (15) faculty members who have been removed from the waitlist and who did not purchase faculty housing for review. We found there was adequate documentation to support the changes made to the waitlist. Specifically, we found that:

- In 10 cases, Triad Real Estate Group⁹ notified CHA with support documentation when faculty members declined the offer to purchase.
- In three cases, CHA determined that Faculty members on the waitlist have secured a home on the open market.
- In one case, AP notified CHA that a faculty member had resigned and provided HR support documentation.
- In one case, CHA ran a monthly report to determine if a Faculty member secured a Mortgage Origination Program (MOP)¹⁰ loan to purchase on the open market.

⁸ One analyst handles faculty matters for Social Sciences, Humanities and Fine Arts, Education, and Creative Studies and the other manages Mathematical, Life, and Physical Sciences, Engineering, and Bren.

⁹ Triad Real Estate Group offers the newly built condominiums to faculty on the waitlist and processes the purchase.

¹⁰ Mortgage Origination Program: developed by the University of California to support the recruitment and retention of faculty by assisting them with home loans to purchase a principal residence near their work location.

Maintaining monthly updates of the waitlist would help to track activity changes from one month to the next and assist in determining trends of activity to be reported to the CHA Board of Directors. We also identified that UCI has implemented a self-attestation form to better inform them of faculty members who have purchased a primary residency in the area to improve the efficiency of removing them from the waitlist.

RECOMMENDATION

We recommend that the Community Housing Authority, in collaboration of Academic Personnel:

- Update the waitlist procedure to include the sequence of steps for entering and removing faculty from the waitlist and identify those who are responsible for performing each step.
- Maintain the monthly updates for retention purposes. This information would help to support waitlist changes more efficiently.
- Evaluate requesting faculty to complete an application form to be incorporated on the waitlist. This application should capture the date and time stamp to determine the entry order on the waitlist. Faculty would not be on the waitlist until they complete the application form.
- Evaluate centralizing the waitlist in one system to improve efficiency and tracking functionalities. This will also reduce potential manual errors and data inconsistencies.
- Evaluate implementing a self-attestation form to help identify faculty members who do not meet the criteria to be on the waitlist. Faculty who do not meet the criteria to be on the waitlist should be removed. This includes disclosing to program participants that the University may periodically seek to verify the eligibility of individuals on the waitlist and in the homeowner's program.

MANAGEMENT RESPONSE

The Community Housing Authority will:

- Update the waitlist procedure to include the sequence of steps for entering and removing faculty from the waitlist and identify those who are responsible for performing each step.
- Maintain the monthly updates for retention purposes. This information would help to support waitlist changes more efficiently.
- Evaluate requesting faculty to complete an application form to be incorporated on the waitlist. This application should capture the date and time stamp to determine the entry order on the waitlist. Faculty would not be on the waitlist until they complete the application form.
- Evaluate centralizing the waitlist in one system to improve efficiency and tracking functionalities. This will also reduce potential manual errors and data inconsistencies.
- Evaluate implementing a self-attestation form to help identify faculty members who do

not meet the criteria to be on the waitlist. Faculty who do not meet the criteria to be on the waitlist should be removed. This includes disclosing to program participants that the University may periodically seek to verify the eligibility of individuals on the waitlist and in the homeowner's program.

Audit and Advisory Services will follow up on the status of these issues by October 31, 2024.

3. SALES AND LEASING NOTIFICATION MANAGEMENT

The Faculty Housing Program notification process, including the sequence of events and approvals, is adequately managed. However, it is not documented in a procedure. It is important to highlight that there was only one sale and one lease that occurred in the fiscal year 2022-23. The Ocean Road housing project could significantly increase the volume of sales and leasing notifications.

We found that the sales and leasing notification instructions are documented in emails instead of in a procedure. Documented procedures and guidance to manage sales and leasing notifications, including tracking them, would help to ensure that the notification process follows the proper sequential steps. CHA currently only administers a for-sale housing program.

Additionally, there is not a standard form to request the intention to sell or lease. Emails are used as a retention tool for notifications. It could be beneficial to formalize an intent to sell and intent to lease notification that includes relevant information such as date, faculty member's name, property address, and contact information. In addition, developing a solution to adequately track the sales and leasing sequence of events would be useful to communicate sales and lease activity to the CHA Board.

Furthermore, with the new state legislation¹¹ currently in place, limitations on the use of the property can no longer be prohibited or restricted related to the leasing of their property interest. Lease processes should be evaluated to determine whether or not to continue the request to receive lease notifications.

Sales Notifications¹²

We verified whether CHA responded within 45 days to the intent to sell faculty house notifications during the fiscal year 2022-23, as is required by CC&R¹³ and by University guidance¹⁴. We confirmed that one notification was communicated to the CHA and was responded to within 45 days.

Lease Notifications¹⁵

We verified whether intent to lease notifications were justified and approved by the CHA Executive Board during the fiscal year 2022-23. We confirmed CHA verified with AP that a sabbatical was approved during the leasing period. In addition, we verified that the CHA Executive Board approved the lease and the homeowner was notified by CHA of the approval.

¹¹ See background section *Davis-Stirling Common Interest Development Act*.

¹² See background information timeline.

¹³ CC&R Section 11.07: Sales.

¹⁴ Summary of Resales Ocean Walk and Leasing/CC&R.

¹⁵ See background for leasing sequence of events.

RECOMMENDATION

We recommend that the Community Housing Authority:

- Document the sales notification process in a procedure including the notification of intent to sell, the Right of First Refusal or assignment of a buyer, and the timeline the University has to respond to the faculty homeowner's notification.
- Formalize an intent to sell and an intent to lease notification form that includes the notification date, faculty member's name, address of the property, and contact information for more efficient tracking.
- Develop a mechanism to adequately track the sales and leasing sequence of events to comply with management documents.
- Evaluate the ability to continue the lease notification process with the passage of Assembly Bill 3182, and document procedures to align with leasing requirements and update management documents as necessary.

MANAGEMENT RESPONSE

The Community Housing Authority will:

- Document the sales notification process in a procedure including the notification of intent to sell, the Right of First Refusal or assignment of a buyer, and the timeline the University has to respond to the faculty homeowner's notification.
- Formalize an intent to sell and an intent to lease notification form that includes the notification date, faculty member's name, address of the property, and contact information for more efficient tracking.
- Develop a mechanism to adequately track the sales and leasing sequence of events to comply with management documents.
- Evaluate the ability to continue the lease notification process with the passage of Assembly Bill 3182, and document procedures to align with leasing requirements and update management documents as necessary.

Audit and Advisory Services will follow up on the status of these issues by October 31, 2024.

4. REPORTING AND COMMUNICATION

OBSERVATION

CHA should continue working on the consistency of the information reported to the CHA Board to assist in the understanding of the status and challenges of the Faculty Housing Program and to help the decision-making process. Streamlining the information found on numerous websites and reevaluating FAQs could also answer questions faculty might have regarding the program.

CHA Board Reports

Our work found that the CHA Board meeting agenda is currently directed toward evaluating current program operations. However, consistent data related to the status of the Faculty Housing Program, including the addition and removal of faculty members to the waitlist, sales and lease notifications, development updates, faculty concerns, and compliance issues could assist in the decision-making process to achieve Faculty Housing Program's goals and objectives.

We reviewed CHA Board minutes since the reinstatement of the board¹⁶ and found that areas of discussion included prevalent faculty housing topics based on concerns from faculty. A board meeting was held in the summer and again in the fall. Discussions included ground rent rates, project completions, informing faculty about program opportunities and restrictions, inclusion of additional frequently asked questions, review and clarity of waitlist rules and procedures, and new regulations that will prohibit restrictions on faculty's ability to lease. Board meetings are set to be held quarterly and more frequently if needed.

Comprehensive Information and Communication

Faculty Housing Program information could be consolidated to enhance the user's experience, provide faculty members with a comprehensive overview of the program, and mitigate potential inconsistencies.

We noted that there is a significant amount of information related to the Faculty Housing Program that is available and maintained in various locations, including the Community Housing Authority website, the Executive Vice Chancellor's website, and the UCSB Campus Housing website that could be consolidated or properly referenced to the CHA website. Consolidating the Faculty Housing Program information onto a dedicated website would help to streamline and improve the user's experience in navigating through the program's information, provide a more comprehensive understanding of the program, and eliminate outdated or inconsistent information maintained on multiple sites.

Our review shows that CHA provides faculty with:

- A variety of process steps and best practices, such as the requirements to qualify for housing, mortgage process steps and loan pre-approval for prospective buyers, waitlist policy guidelines, property use and maintenance, HOA information, and development management documents.
- Frequently Asked Question pages. They have been established to address the most frequent inquiries including general questions about the Faculty Housing Program, new construction information, and housing options and availability.
- An overview of the resale process including how to sell your home, the intent to sell notification requirement, maximum resale price, and a summary of UCSB resale process guidance.

Information on various websites provides either specific or similar information related to the Faculty Housing Program. For example:

¹⁶ The CHA Board was reinstated at the beginning fiscal year 2023-24.

- Waitlist removal information is included on the CHA website, but omitted on the EVC website, referencing the waitlist criteria to purchase University-subsidized faculty homes.
- A potential Devereux housing development is included on the EVC website; however, it is not shared on the UCSB Campus Housing or CHA website.
- Relevant information on aiding faculty with UC mortgage and loan program assistance is available on the EVC website, while the CHA website covers the five-step mortgage process.

RECOMMENDATION

We recommend the Community Housing Authority:

- Consolidate the information provided to the CHA Board in the quarterly meetings in a report that includes the status of the Faculty Housing Program and statistical information on the UC loan programs, waitlist changes, sales and leases, and pre-sold inventory. Provide new development updates, faculty concerns, compliance issues, and other areas of concern related to the Faculty Housing Program.
- Evaluate centralizing all faculty housing information on a website to provide faculty members interested in affordable housing a comprehensive understanding of all facets of the Faculty Housing Program.
- Consistently update the Frequently Asked Questions to provide relevant information based on current program inquiries and housing concerns.

MANAGEMENT RESPONSE

The Community Housing Authority will:

- Consolidate the information provided to the CHA Board in a report that includes the status of the Faculty Housing Program and statistical information on the UC loan programs, waitlist changes, sales and leases, and pre-sold inventory of new developments. Provide new developments updates, faculty concerns, compliance issues, and other areas of concern related to the Program.
- Evaluate centralizing all faculty housing information on a website to provide faculty members interested in affordable housing a comprehensive understanding of all facets of the Faculty Housing Program.
- Consistently update the Frequently Asked Questions to provide relevant information based on current program inquiries and housing concerns.

Audit and Advisory Services will follow up on the status of these issues by October 31, 2024.

GENERAL INFORMATION

BACKGROUND¹⁷

Faculty Housing Program¹⁸

The objective of the Faculty Housing Program is to strengthen the educational program at the University of California Santa Barbara (UCSB) by fostering an academic community near the Santa Barbara campus by creating and maintaining affordable housing for faculty members of the University and assisting in recruiting and retention efforts.

West Campus Point Development was the first faculty housing community at the University of California, Santa Barbara. The West Campus Point offered two and three-bedroom Mediterranean-style townhomes located on over eleven acres. This complex is comprised of sixty-five townhouse units for faculty. Covenants, Conditions, and Restrictions of the West Campus Point planned unit development were recorded in 1986. The Bylaws of West Campus Point Homeowner's Association were last amended in 1990.

Ocean Walk at North Campus is a planned faculty condominium community situated in the approximately 26.3-acre area within two miles from the campus. Governing documents include a Declaration of Covenants, Conditions, and Restrictions and a Common Areas Lease by and between The Regents of the University of California and the Homeowner's Association recorded in 2011. In addition, the Bylaws of the Ocean Walk at North Campus were also formalized to provide for management, administration, maintenance, preservation, and architectural control over the development. The Ocean Walk development was constructed in phases:

- Phase I consisted of 22 homes
- Phase II was comprised of 37 homes
- Phase III included 30 homes
- Phases IV and V are in the completion stage of 70 homes

The Ocean Road Housing Project proposes to develop a new residential neighborhood on a 16.7-acre area located along the southwestern perimeter of the UCSB main campus and adjacent to Isla Vista. The community is set to include a mixed-use development of 180 townhomes, 360 apartment units, and up to 23,300 SF retail space. The Ocean Road development includes over 5 acres of landscaped open space and roughly 1250 parking spaces. Governing documents have yet to be drafted and recorded.

- Phase I is set to include 180 for-sale housing units, which is expected to be completed in 2024-25.
- Phase II would include 360 rental units following the construction of a new Student Health Center.

Sierra Madre Apartment Complex is located about 1.5 miles from campus and is available to both faculty and staff. There are 35 unfurnished apartments consisting of 28 two-

¹⁷ CHA: Faculty Housing website.

¹⁸ CHA website, housing presentations, and the EVC website.

bedroom/two-bath units and seven three-bedroom/two-bath units. These apartments do not fall under the Faculty Housing Program.

Community Housing Authority Announcement¹⁹

The initial Community Housing Authority Board was formed in 2010 to ensure the successful planning, development, and management of the planned construction of Ocean Walk for-sale and rental housing for faculty and staff. This construction required the establishment of a separate business organization, the UC Santa Barbara Community Housing Authority. A Board of Directors was also formed to advise the campus on the establishment of this organization. The Board was charged with developing an operating plan and budget for the Community Housing Authority, including identifying and providing staffing and service needs and developing a plan for the allocation of units. The Homeowner's Association was developed to oversee the day-to-day management of the housing community.

The campus is set to construct additional for-sale and rental housing for faculty and staff. As UCSB continues to develop faculty housing opportunities, they are renewing the membership of the Community Housing Authority Board which will discuss housing projects and make practical and policy recommendations to the campus. The Faculty Housing Board membership includes two co-chairs, the Senate Chair, an academic dean, the Executive Vice Chancellor, Vice Chancellor for Administrative Services, Interim Vice Chancellor for Diversity, Equity, and Inclusion, and the Associate Vice Chancellor for Academic Personnel, along with faculty and staff representatives, and the Budget & Planning office whose responsibilities include real estate and capital planning.

Waitlist²⁰

Placements on the primary waitlist are initiated by the recommendation of the appropriate dean and approved by the Associate Vice Chancellor for Academic Personnel, who holds authority over the waitlist. Deans are allocated a number of positions that they may use at their discretion for Senate Faculty recruitments, retentions, or preemptive retentions.

Faculty are placed on the waitlist in the order the offer or retention commitment is extended. However, the number on the waitlist is not necessarily an indication of the probability of being offered a home for purchase, or how quickly. Because individuals on the waitlist can state their preference regarding a number of aspects of the home (number of bedrooms, cost, new build vs. resell, West Campus vs. Ocean Walk) movement through the list is not linear. Staff in the Community Housing Authority may be able to give an estimate regarding the timing of an offer to purchase, but will not be able to guarantee that timing.

The following waitlist procedures were drafted in 2017:

- Faculty who purchase homes in the private sector will be removed from the waitlist but will remain eligible to purchase as a member of the appropriate pool. Faculty placed on the waitlist as part of a retention/preemptive retention, who already own a home, may remain on the waitlist.

¹⁹ Community Housing Authority announcement from the Chancellor dated April 27, 2023.

²⁰ Wait list procedures drafted in 2017.

- Faculty will be offered at most two opportunities to purchase units. If two offers are declined, the individual will be removed from the waitlist but will remain eligible to purchase under the appropriate pool.
 - Faculty who are on approved leave and therefore not in residence in Santa Barbara will be given the option to be placed “on hold” for the period of the leave. During the hold period, the faculty member will not be offered an option to purchase.
 - Faculty who indicate a desire to purchase but are unable to qualify for a loan will be allowed to stay on the waitlist. However, they are required to go through the pre-qualification process to verify their ability to qualify or not.
- Partners who share a household will share a spot on the waitlist.
- Waitlist members will be offered the opportunity to indicate the number of bedrooms they prefer. If they choose to specify a preference, they will be offered an opportunity to purchase only units with the number of bedrooms they have chosen.
- Waitlist members will be offered the opportunity to indicate a preference for either Ocean Walk at North Campus or West Campus Point and will only be offered units in the community or communities they specify.
- Waitlist members will be offered the opportunity to indicate a preference for either new construction or resale units and will only be offered units in the category or categories they specify.

AP’s role is limited to managing the waitlist by:

- Entering faculty members to the waitlist based on an offer date and the date of retention exceptions approved by campus leadership.
- Removing faculty from the waitlist based on monthly update notifications provided by CHA.
- Including retention exceptions that are approved by the Executive Vice Chancellor (EVC) and the Associate Vice Chancellor for Academic Personnel (AVC).

CHA’s responsibilities to faculty members on the waitlist include but are not limited to:

- Maintaining an Excel waitlist spreadsheet to track based on the faculty member’s preferences, their status, and the order in which the available houses are offered to faculty based on APs waitlist.
- Identifying faculty members to be removed from the waitlist based on whether they have purchased Faculty Housing, purchased in the community, asked to be removed, or turned down two opportunities to purchase homes of preference. Including:
 - Noting and maintaining justifications for the changes made to the waitlist and maintaining support documentation.

- Sending monthly updates to AP of faculty members that are to be removed from the priority list.
- Communicating with faculty members and presenting them with information about:
 - The process to reserve and purchase University housing based on their preferences and loan pre-qualification.
 - University loan options available to faculty.
- Consulting faculty on the Homeowners Association (HOA) rules and regulations, Declaration of Covenants, Conditions, and Restrictions (CC&Rs), and the lease agreement that governs the development.

*Development Management Documents*²¹

The Declaration of Covenant, Conditions, and Restrictions (CC&Rs), the Homeowner's Association (HOA) Bylaws, and the Common Areas Lease govern the use of the property in the West Campus Point and the Ocean Walk Development. Together these documents are referred to as the Management Documents and establish the development rules, restrictions, and terms and conditions.

The CC&Rs legally define the development and use of the West Campus Point and the Ocean Walk community. It is a recorded contractual agreement that establishes rules, restrictions, and obligations that the homeowner must follow about the use of the property. It also sets forth the rights and obligations of the homeowner's association. Article VII in the West Campus Point CC&Rs defines the common area lease provision.

The West Campus Point and Ocean Walk Bylaws are written to establish governance and operations by and between the HOA board members and the property owners and establish each member's voting rights. The Bylaws outline the HOA board's management and regulation of the developed community and the duties and responsibilities over development residents, including non-compliance issues.

A separately recorded Common Areas Lease/Sublease agreement was entered into by and between The Regents of the University of California (lessor) and the Ocean Walk Homeowners Association (lessee). The University is the owner of the condominium project described as the Ocean Walk at North Campus Development. The sublease of undivided interest contains restrictions on the ownership, occupancy, and resale of the condominium, including limiting the resale price. The planned condominium community ownership is to promote the furtherance of the University's affordable housing program.

Sales Notification Process

- The owner notifies CHA of the intent to sell.
- CHA responds to the owner within forty-five (45) days of notification to exercise an ROFR or assign a buyer.

²¹ Ocean View Common Areas Lease/Sublease agreement, Declaration of Covenants, Conditions, and Restrictions (CC&Rs), and Homeowners Association (HOA) Bylaws.

- If the University assigns its option to purchase to an individual from the waitlist, notification is provided by the University to the individual on the waitlist, including the maximum resale price, residential unit, and the contact information of the owner.
- The owner and buyer (faculty member from the waitlist) complete the transaction directly; the owner is required to hire a licensed real estate agent and pay the agents' commissions to facilitate the transaction.
- If CHA does not respond within 45 days, the owner can then offer the condominium for sale for sixty (60) calendar days to all of UCSB's faculty, academic staff, and salaried employees and must notify the University if a buyer was not secured.
- CHA then has fifteen (15) days to respond to the original offer or provide an offer with less favorable terms to the owner to purchase said condominium.

In a resale in which the University exercises its option to purchase, CHA has the responsibility to perform as the buyer in the transaction, which is facilitated by the University's authorized/licensed real estate agent.

Lease Notification Process

- CHA is informed of leases when an owner provides the University with notification of an intent to lease.
- AP verifies that the owner will be on sabbatical during the lease.
- Approval is executed by the CHA Executive Board Members.
- CHA notifies the owner of the approval.

Davis-Stirling Common Interest Development Act²² - Use of Property

The Davis-Stirling Common Interest Development Act was amended with the passage of Assembly Bill 3182 to read that an owner is not subject to provisions in a governing document that prohibits or restricts the rental or leasing of their property interest, including any accessory dwelling units or junior accessory dwelling units, to a renter, lessee, or tenant. In addition, a common interest development may not adopt or enforce a provision in a governing document (or amendment) that restricts owners from renting or leasing less than 25% of their property interests.

Under the new law, UC is prohibited from enforcing or adopting provisions that restrict owners from renting or leasing their property to non-UC employees. This change to the current leasing guidelines is under review by legal counsel and the University of California Office of the President.

SCOPE

The scope of our review was focused on the Faculty Housing Program processes and internal controls during the fiscal year 2022-23. Our review was limited to assessing the current Faculty Housing Program administration of the waitlist, sales, and lease notifications, and compliance thereof pertaining to the Ocean Walk project. To accomplish our objectives, our

²² California Civil Code Sections 4740 and 4741. Limitation on rental prohibitions effective January 1, 2021.

work included interviews, observations, review of support documentation, testing, and other steps. Specifically, we:

- Researched UC and UCSB policies, best practices, and other guidance relevant to the Faculty Housing Program.
- Conducted interviews with campus personnel managing the Faculty Housing Program to understand core business processes, policies, and procedures.
- Performed a risk analysis that considered Faculty Housing Program processes managed by CHA and Academic Personnel.
- Evaluated whether roles and responsibilities have been formalized over the Faculty Housing program business processes including waitlist administration and management of the sale and leasing notification process.
- Assessed whether the Faculty Housing Program has documented main business procedures.
- Reviewed and tested the administration and timeliness of sales notifications, leasing notifications, and approvals.
- Evaluated the quality and consistency of the reporting to the CHA Board, notifications to faculty house owners, and relevant information provided to faculty to improve customer satisfaction.

CRITERIA

Our audit was based upon standards as set forth in UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

We reviewed the agreements and by-laws that rule the use of faculty housing in Ocean Walk and the procedure to manage the waitlist, including:

- Ocean Walk Common Areas Lease/Sublease Agreement
- Ocean Walk Covenant, Conditions, and Restrictions
- Ocean Walk Homeowners Association Bylaws
- West Campus Point Covenant, Conditions, and Restrictions
- West Campus Point Homeowners Association Bylaws
- Ocean Road Townhall Presentation
- Community Housing Authority Faculty Housing Presentation
- Priority Waitlist Procedures, 2017 draft version

AUDIT TEAM

Ashley Andersen, Audit Director
Antonio Mañas Meléndez, Associate Audit Director
Irene Camargo, Senior Auditor