



Rural Development

RD AN No. **4840** (1944-1)
April 27, 2017

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TO: State Directors
Rural Development

ATTENTION: Single Family Housing Program Directors,
Self –Help Coordination and Area Directors
Single Family Housing

FROM: Richard A. Davis /s/ *Richard A. Davis*
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SUBJECT: Supervised and Bank Accounts and Custodial Accounts
Used in Conjunction with Self-Help Technical Assistance
Grants

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide consistent guidance concerning the use of Supervised Bank Accounts (SBAs) in connection with Self-Help Technical Assistance Grant construction, and the use of Custodial Accounts to eligible Self-Help Technical Assistance Grantees.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN 4094 dated June 29, 2005 on this subject, which has expired.

BACKGROUND:

Historically, Management Control Reviews of the Section 523 Mutual Self-Help Technical Assistance Grant program have uncovered an inconsistency with SBAs. At a recent training event, it was noted that the need for additional guidance in this area is warranted. This AN clarifies the application of Rural Development (RD) Instruction 1902-A regarding SBAs and Custodial Accounts when used in conjunction with the Self-Help program.

IMPLEMENTATION RESPONSIBILITIES:

Supervised Bank Accounts

RD State offices will ensure that field offices are trained in the correct use of SBAs

EXPIRATION DATE:
April 30, 2018

FILING INSTRUCTIONS:
Preceding RD Instruction 1944-I

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as outlined in RD Instruction 1902-A. Maintaining good documentation of the Section 502 or 504 loan expenditures includes retaining copies of invoices, organized and easy to match with checks written and Form RD 402-2, "Statement of Deposits and Withdrawals", properly completed to match with corresponding invoice and checks in the borrower's case folder or in the electronic customer file (ECF) system. For SBAs, checkbooks should be kept in a secure manner such as the borrower case folder stored in a locking file cabinet or an office safe. Borrowers are not permitted to sign blank SBA checks.

The "Deposit Agreement" is required pursuant to RD Instruction 1902-A §1902.6 and signed by the applicant, the financial institution and the Rural Development field office employee. If local financial institutions are unavailable, States are reminded that the AgFed Credit Union has agreed to participate in the Agency's SBA process and in most cases can be utilized remotely. Field staff should complete the AgFed Credit Union's 'Member Service Request' form found on SharePoint at SFH>DIRECT>SPECIAL PROGRAMS>SELF-HELP. The completed form can be emailed to AgFed Credit Union's Branch Manager, Shamika Jones at ShamikaJ@agricultureFCU.org to begin the process of opening the SBA (aka Supervised 'Business' Account by AgFed Credit Union).

Custodial Accounts

In an effort to alleviate the field office work load, Custodial Accounts to eligible Self-Help Technical Assistance Grantees are authorized. Some grantees may use this alternative method of accounting for the administration of participating families' 502 or 504 loan funds.

In the custodial bill-paying system, the grantee maintains a separate custodial account. Throughout the construction process, some of each family's individual 502 or 504 loan funds are deposited into this account and held in trust for the families until the funds are disbursed to various vendors. The primary difference is in the number of checks required to be written to the vendor.

The custodial bill-paying process is typically structured so that on a regular basis (weekly, bi-weekly or monthly), invoices for construction expenses are tabulated for each family; then one check from each families' 502 or 504 loan is ordered, payable to both the family and the grantee, in the appropriate amount to cover payment of these invoices. These checks are deposited into the custodial account from which one check is then issued to each vendor in payment of each families' individual costs. As indicated above, the advantage of the custodial method of bill-paying is a major reduction in the number of checks that must be written and co-signed for each family.

This AN sets forth the guidelines for approval of a grantee who desires to independently maintain Custodial Accounts for program participants. Approval of these types of requests will be at the discretion of the RD State Office.

At a minimum, the following requirements must be met:

1. The grantee should have successfully completed at least one grant cycle.

2. The grantee has a record-keeping system which shows that the cost of the materials and services were allocated to each borrower's account in relation to the actual material and service used by each borrower.
3. Custodial Accounts maintained by the grantee on behalf of a Mutual Self-Help group with funds exceeding \$250,000 at any time must have acceptable collateral pledged with the Federal Reserve Bank in an amount not less than the excess as outlined in RD Instruction 1902-A §1902.7. To avoid this situation, the field office should monitor the custodial account as draws are requested. It is advantageous to make smaller draws on the borrower's accounts, more frequently, as funds are needed.
4. A letter from the self-help grantee's accounting auditor and/or Technical and Management Assistants provider indicating that the proposed method for bill-paying provides a means for an adequate audit trail.

When requesting funds from the 502 or 504 borrower accounts, the grantee should provide RD with clear documentation of the expenditures due. This includes a coversheet detailing the current charges due from the borrower as well as copies of corresponding invoices. The coversheet should be signed by both the grantee and the participating family before it is submitted to the RD for processing.

As a reminder, in accordance with RD Instruction 1944-I §1944.422, audits of borrower's Section 502 or 504 loan funds are required. This Instruction states that the auditor will determine the number of accounts to be tested and under no circumstance should less than 10 percent of the open custodial accounts during the audit cycle. Audits of the borrower funds do not necessarily need to be tested in the same manner as the organizational audit. Agreed Upon Procedures (AUPs) may be developed and used for the Section 502 or 504 loan funds in custodial accounts. At a minimum, an AUP engagement will include a review of the draw requests to ensure charges listed can be traced back to source documents and a reconciliation of the financial institution's account record.

State Offices needing further guidance on this AN should contact Andria Hively, Finance & Loan Analyst for the Single Family Housing Direct Loan Division at (360) 753-7724.