RCAC Custodial Accounts Training

A-TEAM Regional Finance Meeting Special Session: 7/26/22 @ 1 PM PST
Samantha Bowley, Grandma-To-Be & Financial Management Specialist, Mutual Self-Help Housing
Mutual Self-Help Custodial & Supervised Bank Accounts

There’s a guidebook!
“I wish I would’ve had one of these when I started...”
Look What We Made: The Fiscal Guidebook!

Fiscal Guidebook
Mutual Self-Help
Custodial & Supervised Bank Accounts

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Rachel Chacon, Community Resources & Housing Development Corporation, CO

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There’s Always a Caveat*

This guidebook is not the answer everything!

- Processes *do vary* among states and regions...
- but the requirements, best practices and regulations are now centralized for you.

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Let’s Start with the Foundation

What am I Custodian Of? Or What am I Supervising?

- Qualified **owner/builders** receive a direct 502 loan for construction; that loan will convert to a mortgage when the build is complete (or 504 if Rehab)
- 502 funds belong ONLY to the individual or **family/borrowers** that applied and were approved (not to the grantee) for the loan
- Grantee has some **CUSTODIAL** or **SUPERVISED** fund oversight responsibilities
2 Methods of 502/504 Loan Fund Responsibility

SUPERVISED BANK ACCOUNTS

• USDA RD manages the individual loan borrower bank account
  • Funded with portions of the 502 loan fund to coincide with construction costs
• USDA RD and the grantee collaborate to generate, sign and distribute checks per family loan to vendors and suppliers
  • Administrative burden on RD
  • Delayed vendor payments as signatures are secured
2 Methods of 502/504 Loan Fund Responsibility

CUSTODIAL ACCOUNTS

- The grantee draws the loan funds from USDA RD on behalf of the owner/builders
- The grantee is responsible for managing the collective loan funds for all owner/builders in a local bank single checking account
- The grantee pays vendors directly, one check per service/material
- The grantee reconciles the account and ledgers – keeps families up to date on expenses, budgets, and fund balances
CUSTODIAL & SUPERVISED BANK ACCOUNTS

MUTUAL SELF-HELP HOUSING

Guidance Information Sheet

DEFINITION/COMPARISON

Custodial Accounts are an authorized method for administering participating families’ USDA RD 502 or 504 loan funds; custodial accounts are preferred as a means to alleviate USDA RD’s field office workload and to streamline the administrative responsibilities of 523 Self-Help Technical Assistance grantees (referred throughout as “grantees”). The advantage of custodial method bill-paying is a major reduction in the number of checks that must be written and cosigned for each family.

Custodial Accounting Summary:
Throughout the construction process, a portion of each participating family’s individual 502 or 504 loan funds are deposited into a single custodial account held in collective trust by the grantee for each of the families of the build group until the funds are disbursed to various vendors and/or contractors for payment.

- Grantee opens a single custodial checking account for collective deposits and payment activity for all families in the build group
- Grantee maintains a separate custodial bookkeeping account ledger for each participant family/borrower in the build group
- Individual check draws from each family’s 502 or 504 loan are requested from USDA RD’s field office, payable to the family and the grantee
- Draws from each participant family received from USDA RD are deposited into the custodial build account
- Invoices for construction expenses are entered into the custodial bookkeeping account

Reference:
ANAB-1944-4 5/27/2017 expires 5/30/2018
USDA RD Instruction 1944-4 11/2-12-19
Uniform Guidance, Part 2 CFR 200 & 7 CFR Part 1902
7/13/22
The Guidance Information Sheet Sections

Custodial Bank Account Responsibility

and

Supervised Bank Accounts

4 sections each

Definition/Comparison
Summary Overview
Process Detail (the how to)
Requirements for Use
The Process Detail Section…Cut & Paste

…and a reminder, the Process Detail section can function as a great template for your Financial Policies & Procedures…

Copy and Paste at will!
Custodial Funds - Show Me the Money!

1. THE FUNDS & THE BANK ACCOUNT
   • Money is held in trust by the grantee for the borrowers
   • Grantee will open and manage a separate bank account on behalf of the family builders
     • Grantee’s Tax ID
     • Non-interest bearing
   • Internal control Alert! *two check signatures*!
   • In/out on grantee’s BALANCE SHEET asset/liability
     • Owner/Builder funds should not be a part of your organization's’ P&L (income/expense)
2. THE ACCOUNTING SYSTEM

- Maintain a separate “company” for build group
- Identify funds received (draws) and expense costs
- Compare BTA for each individual family
- Establish and keep up-to-date written policies & procedures for account management
  - specifically for the custodial account
  - how/when you draw
  - how/when you do financial reviews with the family
  - who among grantee staff prepares what financially speaking (separation of duties)
Custodial Funds – When to Draw?

3. THE 502 DRAW SCHEDULE

- State USDA RD office has schedule preferences
  - negotiate with them to ensure timely draws that allow you to pay vendors promptly
  - Timeline predetermined (e.g., a draw once a quarter, once a month, etc.) or may be flexible based upon construction purchase needs

- Typically 2 Draw Methods:
  - Advance/Construction Progress Draws: Grantee presents draw request based upon the construction budget and/or the build progress;
  - Cost-Reimbursement Draws: Grantee assumes construction costs up front, and then presents the draw request for reimbursement
Custodial Funds – THE DRAW Pieces & Parts

4. THE DRAW REQUEST
should contain the following:

DRAW SUMMARY COVERSHEET
the narrative, the amount, the signatures

BACK UP
copies of invoices, PO’s, Estimates

BUDGET TO ACTUAL
current period expenses, total expenses to date & loan balance

RECONCILATION
of previous advances to actual costs
Summary Sheet/Construction Draw Request Sample

**Construction Draw Request**

<table>
<thead>
<tr>
<th>Invoice #</th>
<th>Payable To</th>
<th>Description</th>
<th>Amount</th>
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<td>10001</td>
<td>Company Name</td>
<td>foundation</td>
<td>16161.66</td>
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<tr>
<td>ABCR</td>
<td>Holm Const</td>
<td>excavation</td>
<td>2430.00</td>
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<td>2</td>
<td>Holbrook Const</td>
<td>framing materials</td>
<td>1489.32</td>
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<tr>
<td>receipt</td>
<td>Home Depot</td>
<td>wallplate/electric material</td>
<td>9.61</td>
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</tbody>
</table>

**TOTAL** $20,090.59

| Total Construction Leac. | $277,556.00 |
| Total Draws to Date     | $152,730.59 |

**Amount of Draw Request** $20,090.59

**Fund Balance** $119,825.41

*Construction Narrative:*

The financing & permits have been covered - job site preparation is well under way; this draw (draw #2) reconciles the initial closing draw and is covering only actual invoices related to excavation and foundation work, along with misc. supply receipt & invoice for framing materials. Delays in material shipments continue to cause delay in construction, though we are not too far behind.

By signing this document, I agree to the draw amount as shown above and release funds to the Custodial Account held by Self-Helper Grantee for payments as required in construction of my home through the Mutual Self-Help Housing Program. I am also aware of the budget and the actual costs of all construction expenses to date.
I Got Your Back-Up
Custodial Funds – Check’s in the Mail!

5. THE 502 DRAW DEPOSIT

Grantee receives single check from USDA RD for all members of the build group and deposits into the Custodial Account.
6. ACCOUNT FOR (OWNER/BUILDER’S) INDIVIDUAL CONSTRUCTION COSTS

- Costs per family must be accounted for within the build group ‘company’
  - Based on construction invoices, PO’s, cost allocation for shared project costs, etc.
  - Pro-rated calculation must be documented on each invoice showing cost distribution
- The vendor payment schedule is determined by the grantee
  - Weekly, bi-weekly, monthly
  - Timely payments = Happy & Hard-Working Contractors
- Vendors receive one check from the grantee’s custodial account for build group work
- Refunds are allocated to individual family ledgers as appropriate
Custodial Funds – What’s My Status?

7. LOAN FINANCIAL STATUS REPORTS TO FAMILIES

• Grantee should provide Budget-to-Actual to each owner/builder family on a consistent basis
  • Regular schedule of biweekly, monthly, bi-monthly, etc.
  • May or may not be tied to the draw schedule
  • Itemized detail of each construction expense, the loan balance, and a reconciliation of any advancement draws

• Grantees must also review and provide copies to owner/builders of all checks paid to vendors
  • Bonus! Meetings can function as a valuable project management tool: for example, tie the budget review to fixture choices
### Budget to Actual Sample

#### Sample Builder - Lot 22, Sample Landing Plot II

<table>
<thead>
<tr>
<th>Custodial Account</th>
<th>CURRENT PERIOD EXP</th>
<th>TOTAL EXP TO DATE</th>
<th>BUDGET</th>
<th>BALANCE</th>
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<tr>
<td>CLIENT BANK ACCOUNTS</td>
<td>$172,314.00</td>
<td>$231,322.00</td>
<td>$59,008.00</td>
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<th>Borrower funds for construction</th>
<th>CURRENT PERIOD EXP</th>
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<td>HOMESTART FUNDS</td>
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<td>HOMEOWNER DOWN PAYMENT</td>
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<td>TOTAL FUNDING</td>
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<td>$231,322.00</td>
<td>$59,008.00</td>
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<table>
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<tr>
<th>Borrower Construction Budget</th>
<th>CURRENT PERIOD EXP</th>
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<td>CONTINGENCY</td>
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<td>PLANS &amp; INSPECTIONS</td>
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**Note:** This table represents a sample of budget to actual cost comparisons for a construction project, showing the comparison between budgeted and actual expenses for various categories.
## ACTUAL CONSTRUCTION COSTS

<table>
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<tr>
<th>Description</th>
<th>Budgeted</th>
<th>2020 Q1</th>
<th>2020 Q2</th>
<th>2020 Q3</th>
<th>2020 Q4</th>
<th>Total Cost of Project to Date</th>
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<td>128</td>
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**Notes:**
- **RCAC**
- www.rcac.org
### Review & Reconcile – Serious Deets

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<th>Item Description</th>
<th>Quantity</th>
<th>Rate</th>
<th>Amount</th>
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<td>Garage Slab</td>
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<td>Bricklaying</td>
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<td>Interior</td>
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<td>Insulation</td>
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<td>Roofing</td>
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<td>Drywall</td>
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<tr>
<td>Fixtures</td>
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<tr>
<td>Appliances</td>
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### Review & Reconcile – Serious Deets

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### ORIGINAL LOAN BALANCE

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<tr>
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<th></th>
<th></th>
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<td>ORIGINAL LOAN BALANCE</td>
<td>$272,556.00</td>
<td>$139,477.87</td>
<td>$119,825.41</td>
<td>$86,897.87</td>
<td>$54,932.12</td>
<td>$32,392.12</td>
<td>$8,693.82</td>
<td>$8,693.82</td>
<td>$8,693.82</td>
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<tr>
<td>TOTAL DRAWS</td>
<td>$132,640.00</td>
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<td>$32,927.54</td>
<td>$34,805.75</td>
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<td>LOAN BALANCE REMAINING</td>
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<td>$32,392.12</td>
<td>$8,693.82</td>
<td>$8,693.82</td>
<td>$8,693.82</td>
<td>($0.00)</td>
<td>($0.00)</td>
</tr>
</tbody>
</table>

**RCAC**

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8. FUND BALANCE

- Remaining **fund balance** is typically applied as a reduction to the family’s loan principal by USDA RD.

- The grantee shall also provide each family with the complete record of the build, including, copies of all invoices, payments, and lien releases, warranties, etc. (electronic distribution recommended, e.g., thumb drive) for reference.
Custodial Funds – Death & Taxes

9. 1099’s & THE CUSTODIAL ACCOUNT

Ask us! We can help!
Put Me In Coach!...I Want to Manage Some Custodial Funds!

...let’s talk just a bit about the “requirements”
Minimum Custodial Accounting Requirements

Approval is at the discretion of RD State Office

1. Grantee should have successfully completed at least one previous grant cycle (*RD may waive this requirement, and often does*)

2. 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 *(you have to do this anyway! 😊 Just use your BTA & your reconciliation sheet)*

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. *(hint: timeline of draws, can you ensure you will not exceed the $250K balance?)*

4. In accordance with RD Instruction 1944-I §1944.422, audits of borrower’s Section 502 or 504 loan funds are required. *(this is kind of a big deal…)*
…"Audits of the borrower loan funds will be required. The number of borrower accounts audited will be determined by the auditor. In incidences where it is difficult to determine the appropriate number of accounts to be audited, auditors should be authorized by the State Director to audit the lesser of 10 loans or 10 percent of total loans. 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…”
Another Reminder for the Grantee, “Help Yourself!”

Copy and paste the detailed process sections of the Guidebook to utilize as a template to develop YOUR organization’s financial P&P for Custodial or Supervised Bank Account fund management

No need to reinvent the wheel!
What About Supervised Bank Accounts?

**SUPERVISED BANK ACCOUNTS (SBA)**

**DEFINITION/COMPARISON**

**Supervised Bank Accounts** RD State offices will ensure that RD field offices are trained in the correct use of SBAs as outlined in RD Instruction 1902-A. The RD field office will establish individual checking accounts in the name of the family borrower and in the authorized signatory for USDA RD. Individual checks will be distributed to the grantee who must obtain the family borrower’s signature and then deliver to vendors/contractors. This process can delay payment delivery through the time required to obtain check signatures prior to payment.

**Supervised Bank Accounts Summary:**
USDA RD field office manages each borrower’s individual checking account and produces the checks for payment of construction costs. However, the responsibility of reconciling each family borrower’s account, invoice payments and loan balances is delegated to the grantee. Checks are produced and signed by the RD state office, then routed to the grantee to review and obtain 2nd check signatures from each participant borrower. Checks are then mailed to vendors/contractors by the grantee. A vendor will receive multiple check payments (one from each individual family borrower) for work on the group build project.

- USDA RD field office opens, maintains and shares signing authority with each individual family borrower on separate checking accounts tied to the family borrower’s loan.
- The grantee must also maintain a separate bookkeeping account ledger for each participant family/borrower in the build group and reconcile that ledger to USDA RD’s account ledger for each family borrower checking account.
- Individual check draws from each family’s 502 or 504 loan are requested from USDA RD’s field office, payable directly to vendors/contractors.
Guidance Information Sheet FAQs

**CUSTODIAL & SUPERVISED BANK ACCOUNTS**

**MUTUAL SELF-HELP HOUSING**

**Guidance Information Sheet**

**FAQs:**

*Who enters into (signs) contracts with the builders?*

The individual borrower/builders should enter into contract with the construction vendors (each homeowner/builder should sign the professional construction agreements, e.g., plumbing/electrical), not the grantee. This helps to ensure clarity around warranty of work for each homeowner, and financial obligation of owner/borrower to contractor vs. grantee to contractor.

*How does RD monitor the progress of the build group?*

RD staff will commonly visit the construction site in both the initial groundwork and final inspection periods. Pictures may also be required to record build progress throughout. RD and the grantee will
And Finally, the Beginning…the Chart of Accounts

- A good Chart of Accounts goes a long way to effective custodial fund management
- Why is the COA a critical component of support to a separate “company” for your custodial funds (vs. your organization financials)?

[Chart of Accounts Sample]

AFS 2-DAY TRAINING 9/14 & 9/15/22

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Questions?
Contact Me!

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