502 Bookeeping

National Self-Help Conference ‘Sharing the Vision’
Albuquerque, NM Feb. 4-6, 2020
AGENDA

• Introduction of Presenters
• Methods of Bill Paying
• Flow Charts
• The Flow of the Money
• Handling and accounting for borrower loan funds
References

• Rural Development Instruction 1944-I, ‘Self-Help Technical Assistance Grants’

• Expired AN 4840, ‘Supervised Bank Accounts and Custodial Accounts Used in Conjunction with Self-Help Technical Assistance Grants’

• Rural Development Instruction 1902-A, ‘Supervised Bank Accounts for Loans, Grant and Other Funds’

• Handbook 3550-1, Chapter 5, Section 6 ‘Managing Construction’

• T&MA Contractors Training – ‘Guide to Individual Borrower 502 Loan Accounts’
National RD

- Supervised Bank Accounts
  - Family One
  - Family Two
  - Family Three
  - Family Four

Grantee Custodial Account
With individual family sub-accounts

- Vendor #1
- Vendor #2
- Vendor #3
The Flow of the Money

Establish Purchase Order (P.O.) System

Update Purchase Order (P.O.) System

Records
• Keep track of family's expenses

Payments Made
• Request for Payment forms
• “PAID” and date on Invoice

Checks Written
• Check stub/vendor payment letter
• Review by someone besides check writer
• Copy made for family file

The Purchase Order
• Based on current materials needed
• Contains all important information
• Staff other than Construction Supervisor
• Copy made for family filed

Order Placed

Delivery
• Delivery Slip
• Has P. O. # on it
• Reconcile with P. O.
• Copy made for family file

Invoices
• P. O. Box # Invoice & Invoice # on P.O.
• Match with P. O.
• Match with Delivery Slip
• Add Cost Category
• Reconcile
• Copy Made for family file
The Purposes of a Purchase Order
Why do we use them?

1) Assign cost directly to Family

2) Assure Unit Price is Correct
The Purposes of a Purchase Order
Why do we use them?

3) Track and Document all purchases

4) Authorization
"KEEPING TRACK OF IT ALL"

The Accounting System

ACCOUNTING FOR $

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<thead>
<tr>
<th>SBA Only</th>
<th>SBA &amp; Custodial</th>
<th>Custodial Only</th>
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<td>SBA</td>
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<td>Vendors</td>
<td>Trust Account</td>
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Managing 502/504 Borrower Funds

RD Instruction 1944-I, §1944.425
502/504 Borrower Funds

• §1944.425, Updated to include minimum requirements for grantees managing 502/504 funds:
  
  • Successfully complete one grant cycle
  
  • Have an adequate record-keeping system
  
  • Verification from the grantee’s auditor or T&MA Contractor that the proposed method for bill-paying provides a means for an adequate audit trail
Supervised and Custodial Accounts
A Comparison
## SBA vs. Custodial

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<th>SBA</th>
<th>Custodial</th>
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<tr>
<td>Individual Borrower Account</td>
<td>Group Account held in Trust</td>
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<tr>
<td>RD Instruction 1902-A</td>
<td>RD Instruction 1944-I</td>
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<tr>
<td>Handbook 1-3550</td>
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<td>Paper Check Only</td>
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Documentation Requirements

The Expectation
502/504 Borrower Funds Request

- 502/504 draw request should:
  - Be based on an approved draw schedule (monthly, bi-weekly, etc.)
  - Correspond to work in place
    - Provide inspections, as applicable
  - Contain a coversheet that-
    - Details the current charges due (invoices and reasonable anticipated expense, etc.)
    - Is signed off on by both the grantee & the participating family
  - Have attached copies of corresponding invoices, in not previously provided
502/504 Sample Flow

• Initial Draw
  • Typically sent to closing agent electronically
  • May include land, closing costs, building permits and projected start up building materials or subcontracted work (i.e. excavation or foundation)

• Subsequent Draws
  • Invoices for initial draw to back-up projected needs
  • Any invoices received since initial draw
  • Projected funding needs

• Final Draw
  • All remaining invoices to back-up final draw request
  • The combination of all of the draw requests (total of all the invoices) should equal the total construction cost

• Funds Remaining
  • Contract change order
  • Return to RD as extra payment
Audits of 502/504 Borrower Funds

RD Instruction 1944-I, §1944.422
502/504 Borrower Funds Audits

• §1944.422, requires the audit of at least 10 percent of the open 502/504 custodial accounts during the audit cycle

• Agreed Upon Procedures (AUPs) may be developed and used for the Section 502/504 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
    ✓ A reconciliation of the financial institution’s account record