
CHAPTER 4. FINANCIAL MANAGEMENT

4-1 GENERAL. The following financial management issues and checklist shall be addressed when providing technical assistance to Recipients and in the grant closeout process. HUD should monitor and provide technical assistance to Recipients within the broader context of helping cities manage their UDAG project portfolio. It is likely that the Field Office staff will have already discussed establishing financial management procedures with the Recipient early in the project, at a pre-construction conference or monitoring meeting. At the time of closeout, Field Office staff should check to see if a system has been established and, if not, set up a meeting to do so. If the Recipient has a system in place, the Field Office should review its adequacy at this time.

A. The Recipient's financial management system(s) should have:

1. A designated individual to manage the UDAG portfolio;
2. A formal accounting system(s) established prior to the first disbursement of UDAG funds in order to track the UDAG-to-private or other public funds draw down ratio accurately; and
3. A mechanism in place to track and manage subsequent UDAG loan repayments and other payments. The Recipient should have noted specifically whether an annual certification is required of the Developer, in order to properly track participation payments.

B. HUD should:

1. Ensure that the Recipient and Developer and other appropriate Participating Parties clearly understand all UDAG loan provisions and other business terms, such as project net cash flow participation payments, which must be reported in the annual certifications to Recipient required from the Developer;
2. Be available to work with the Recipient and the Developer as necessary. Field Office staff should suggest that the appropriate parties meet to review the loan provisions of the UDAG project and be willing to participate as required;
3. Inform the Recipient that HUD is available to assist in the management and timely reuse of loan repayment and other payment funds and in clarifying the distinctions between program income and miscellaneous revenues; and

4. Advise the Recipient to establish separate interest-bearing accounts to deposit program income and miscellaneous revenue funds.

4-2 RECIPIENT FINANCIAL MANAGEMENT CHECKLIST. The following checklist items should be reviewed as appropriate during the closeout process.

A. Participants.

1. The Recipient should have on file key information - name, address, telephone number - of the contact person(s) for each of the following Participating Parties as applicable:
 - a. Developer, chief financial officer, managing partner, project manager, etc.;
 - b. First and other mortgage holder(s);
 - c. Servicing agent;
 - d. Depository/trustee; and
 - e. Other Participating Parties, including state agencies, Councils of Government, etc.
2. The Recipient should provide similar data on its contact person(s) to the other Participating Parties, as appropriate.

B. UDAG Loan Security Issues/Documents.

1. Uniform Commercial Code (UCC) filings, if applicable: Recipient should know filing date(s) and when refiling(s) are necessary. (Note: check state requirements regarding refilings; some states require this every five (5) years.)
2. Mortgage recordations and notes; copies should be obtained by Recipient and should be on file.
3. Land, improvements and equipment leases:
 - a. Copies should be obtained by Recipient;
 - b. Annual certification(s) that lease payments and additional payments are current should be obtained; and
 - c. Name(s) and address(es) of owner, lessor, equipment supplier should be obtained and on file.

4. Letters of Credit and Guarantee Agreements together with any renewal or expiration dates.
- C. UDAG Loan Provision Considerations. The items which follow cover the most common provisions in UDAG Grant Agreements. Specific Grant Agreements may include special provisions, however, and the Recipient should have a system(s) in place to adequately track any special repayment provisions.
1. Amortization Schedule: (principal and interest payments). Recipient and Developer contact person(s) should have copies.
 2. Lease Payment Schedule.
 3. Repayment Schedule:
 - a. Date(s) interim and permanent loan(s) commence; and
 - b. Date(s) when payments are due (monthly, quarterly, annually).
 4. At a minimum, a collection system should enable the Recipient to send payment due notices and track loan payments as they come in.
 5. Late Payments:
 - a. Late fees. Check state requirements, city codes, as well as any specific provisions in the Grant Agreement or loan documents.
 - b. Will reminders/warning letters be sent?
 - c. How long is the grace period?
 - d. In the event of a missed payment(s), does the Recipient's tracking system alert the Recipient?
 6. Contingent Interest/Other Proceeds/Payments Due Recipient:
 - a. Does the Grant Agreement call for cash flow participation? If so, the Recipient should gather the information necessary to answer the following questions, b-e.
 - b. What is the project's operating year cycle?
 - c. Is this cycle different from the loan repayment schedule?
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6511.02 REV-1

- d. Is the payment due when the annual audited financial statement on project cash flow is due or on another date?
 - e. If these payments are in the same account as fixed loan repayments, they should be designated as separate entries.
- 7. UDAG Loan Default Provisions:
 - a. What are the default provisions under the loan documents?
 - b. What are the remedies for curing a default?
 - c. Is there a process in place for initiating foreclosures?
 - d. What is the notification procedure in the event of a default?
- D. Special/Other Provisions of the Grant or Closeout Agreement.
 - 1. Amount(s) of taxes and/or PILOTs collected.
 - 2. Compliance with Pocket of Poverty requirements.
 - 3. Amount of program income and/or miscellaneous revenues to be collected.
- E. Repayment Uses. Check to see whether specific uses for the repayment are stipulated in the Grant or Closeout Agreement.
- F. Non-Amortizing (Standing) Loans. A non-amortizing loan is a loan for which no principal or interest payments are due during the term; the outstanding principal balance is due at the end of the term.

These loans should be tracked separately from fixed loan repayments. The Recipient should check periodically to be certain that the recordation of the lien remains valid since, in some jurisdictions, there are requirements to periodically update the recording to preserve its validity.

4-3 PROCEDURES FOR RECONCILIATION OF FINANCIAL ACCOUNTS. The following policies and procedures shall be incorporated into and addressed in the grant closeout process as applicable.

A. Line of Credit Adjustments. At closeout, after the accuracy and consistency of the Financial Status Report have been verified, the Field Office shall determine whether an adjustment to the Recipient's Line of Credit is required. While the actual adjustment is not made until the Certificate of Completion is executed, the Field Office should note that funds are remaining and will need to be reconciled at the later time.

1. UDAG Funds are Fully Disbursed. If there are no UDAG funds remaining in the Recipient's Line of Credit, the Field Office shall so note in the Closeout Agreement and no adjustment will need to be made at execution of the Certificate of Completion.
2. Unutilized UDAG Funds at Closeout. If the Recipient's Line of Credit still contains UDAG funds which will never be drawn down for this project, the Line of Credit must be adjusted when the Certificate of Completion is executed and copies distributed by the Field Office.

Upon receipt by RAD of its copy of the Certificate of Completion, the RAD shall recapture and return the funds to Headquarters via the Program Accounting System (PAS). If the funds to be returned to Headquarters were obligated in the same fiscal year as the fiscal year of deobligation, an InterOffice Transfer Voucher (IOTV) shall be prepared and labeled as a "cancellation."

3. Unpaid Costs and/or Unsettled Third-Party Claims at Closeout. If the Recipient's Line of Credit contains UDAG funds which may be drawn down to cover unpaid costs and/or unsettled third party claims, an adjustment may be required later at issuance of the Certificate of Completion. Funds for unpaid costs and unsettled third-party claims will normally remain in the Recipient's Line of Credit between the time the Financial Status Report is approved and the Certificate of Completion is issued. If required by a court of law, funds for an unsettled third-party claim may be drawn down from the Line of Credit and placed in an escrow account.
 - a. The Field Office shall establish a follow-up system, using the Annual Post Grant Closeout Report form, for periodically reviewing the status of funds earmarked on the Financial Status Report for the payment of unpaid costs and any unsettled third-party claims.

- b. When all third-party claims and unpaid costs have been settled and paid, the Field Office shall advise the Recipient to submit four (4) revised copies of the Financial Status Report with original signatures to the Field Office for distribution. A revised Financial Status Report is only required when the first Financial Status Report included an amount for unsettled third-party claim or unpaid costs. Distribution of the approved, revised Financial Status Report, and executed Certificate of Completion and Line of Credit adjustments shall be handled in accordance with instructions contained in Chapter 1 paragraph 1-6.

B. Escrow Accounts.

1. Generally, UDAG funds may not be drawn down and deposited into an escrow account for disbursement after project closeout. In some cases, Grant funds may have been drawn down and deposited into an escrow account in connection with longer-term contractual obligations which:

- a. Extend beyond project closeout; and
- b. Represent uses other than completed physical construction activities. In these situations the use(s) must have been authorized in the Grant Agreement.

Examples of these uses include accounts such as debt service and interest reserve accounts, guarantees and related line items. Debt service and/or interest reserve accounts are typically found in bond-financed projects. These uses are generally stipulated in Exhibit D of the Grant Agreement and may also be referenced in Exhibit E.

2. Escrow funds for unsettled third-party claims may be budgeted for actual disbursement subject to the terms of the executed Closeout Agreement.
3. The Field Office shall continue to monitor escrow accounts pursuant to any Closeout Agreement until all third-party claims have been settled.

C. Audit Requirements.

1. The Recipient must also met the requirements of OMB Circular A-128. See Chapter 3 paragraph 3-2 B.

2. If this project is included in the sample tested in an A-128 audit and if the audit cites any questioned or disallowed costs which are subsequently found to be ineligible, HUD shall retain the right to recover funds equal to the ineligible costs.
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