



FEMA

Community Disaster Loan Program Maintenance Guidelines

January 1, 2009

COMMUNITY DISASTER LOAN MAINTENANCE GUIDELINES

Public Assistance Program

Mission

The mission of the Public Assistance Program is to assist communities in recovering from the devastating effects of disasters by providing technical assistance and financial grants in an efficient, effective, consistent and customer-friendly manner. We will accomplish the mission by having experienced, trained, knowledgeable and friendly staff; well-documented, easy-to-understand and accessible policies and procedures; timely and transparent decision-making; and a strong partnership with the states. We will continuously seek and identify opportunities to improve program delivery.

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Title 44 of the Code of Federal Regulations 206.365, *Loan Administration*, describes the procedures the federal government must follow to maintain the CDL. In summary, these procedures state that the Government must:

1. Disburse funds as scheduled on the promissory note;
2. Require applicant to submit a copy of their most recent Financial Report with each disbursement request;
3. Require adjustments to disbursement schedule in writing 10 days before requested receipt date;
4. Ensure applicants have proper accounting records to account for loans funds received and disbursed and to also provide an audit trail;
5. Ensure access to applicant's books, documents, papers, and records that pertain to the CDL Funds received;
6. Receive copies of applicant's annual financial reports (operating statements, balance sheets, etc.) for the fiscal year of the major disaster, and for each of the 3 subsequent fiscal years;
7. Review the loan periodically to determine whether projected revenue losses, disaster-related expenses, operating budgets, and other factors have changed sufficiently to warrant adjustment of the scheduled disbursement of the loan proceeds; and
8. Provide applicant with a loan status report on a quarterly basis.

In accordance with the intent of these requirements, by means of the original and the supplemental laws, we have developed a *Disbursement Request* procedure and an *Annual Financial Report* procedure. These two procedures outlined below will support these requirements by requesting the applicant to self-certify that its revenue loss remains consistent with or worse than projected in their CDL application. If the applicant reports higher than anticipated revenue collections, then further analysis will be conducted to determine whether the loan amount and drawdown request should be adjusted.

1. Disbursement Requests

In accordance with Title 44 of the Code of Federal Regulations 206.365, *Loan Administration*, FEMA must determine whether the level and frequency of periodic loan disbursements remain necessary given the current financial condition of the applicant. The following will be utilized to meet this requirement:

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A. Disbursement Request

The applicants will be asked to complete a *Disbursement Request* (see Attachment 1) for each scheduled disbursement. The request will ask two questions regarding the current financial condition of the applicant.

1. Have your cumulative annual actual post-disaster revenue collections exceeded the cumulative annual estimated revenue provided in your CDL application?
2. Do you believe that your forecasted annual post-disaster revenue collections will exceed the cumulative annual estimated revenue provided in your CDL application?

The two questions will provide FEMA with the information necessary to determine whether a re-assessment of the loan amount should be conducted. The *Disbursement Request* must be completed and signed by the applicant's authorized representative prior to each scheduled disbursement. For efficiency purposes, a single *Disbursement Request* may cover multiple disbursements should an applicant elect to take multiple disbursements within a 90 day period. For instance, if an applicant has a disbursement scheduled for November 30th and December 31st, it can complete and submit a *Disbursement Request* on November 20th that covers both the November 30th and December 31st disbursements.

B. Re-Calculate Applicant's Loan Amount

If the applicant answers "yes" to either of the questions on the *Disbursement Request*, this will prompt FEMA to re-calculate the applicant's maximum loan amount. The calculation will be figured in the same manner the original application was processed. If the re-calculated loan amount is less than what was previously determined, FEMA management will determine if adjustments need to be made to the loan.

C. Disaster Finance Center (DFC) Role

The Disaster Finance Center (DFC) will disburse funds as scheduled unless the CDL Coordinator informs DFC of a required adjustment to the loan. An adjustment to the disbursements schedule will be made if there is a change in the financial condition of the applicant based on the applicant's response or lack of response on the *Disbursement Request*.

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2. Periodic Loan Review

Title 44 of the Code of Federal Regulations 206.365, *Loan Administration*, FEMA will periodically review the loan. The following will be completed annually to meet this requirement:

A. Annual Financial Report

The CDL Coordinator will ask applicants to complete an *Annual Financial Report* (see Attachment 2). The document will be completed and signed by the applicant's authorized representative once a year (i.e., 90 days after the applicant's fiscal year end). The purpose of this document is to provide FEMA with a proficient method to periodically review the loan in an effective and cost-efficient manner.

In support of the CDL requirements, the *Annual Financial Report* confirms that:

1. Funds have only been used for municipal operating expenses or to expand such functions to meet disaster-related needs.
2. Sufficient accounting records have been established thereby providing a proper audit trail.
3. There has been no material adjustments to prior Financial Reports previously submitted to FEMA.

In addition, the *Annual Financial Report* request asks the applicant whether its actual or projected revenues have changed, and if so, to what extent. It also requests the most recent year end financial report.

This *Annual Financial Report* will provide the CDL Coordinator with the information necessary to determine whether a further review of the loan must occur.

B. Further Review of Applicant's Loan

Further review of the loan may or may not be needed depending on how the applicant answers the following five questions on the *Annual Financial Report*.

1. *Have the loan funds been used for any purpose other than: (1) To carry on existing governmental functions of a municipal operating character or, (2) To expand such functions to meet disaster-related needs?*

Further review will be necessary if the applicant answers this question with "Yes." The CDL Coordinator will engage a CDL Accountant to contact the

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applicant and document how the funds were expended. The CDL Coordinator will then determine what actions to take, including notifying the Department of Homeland Security's Office of Inspector General.

- 2. Does your financial management system account for loan funds received and disbursed and provide an audit trail regarding the use of the funds?*

Further review will be necessary if the applicant answers this question with "No." The CDL Coordinator will engage a CDL Financial Analyst to contact the applicant and document how the applicant has accounted for the loan funds. The CDL Coordinator will then determine what actions to take, including notifying the Department of Homeland Security's Office of Inspector General.

- 3. Have your cumulative annual actual post-disaster revenue collections exceeded the cumulative annual estimated revenue provided in your application?*

Further review will be necessary if the applicant answers this question with "Yes." The CDL Coordinator will engage a CDL Financial Analyst to recalculate the applicant's maximum loan amount. The calculation will be figured in the same manner the original application was processed. If the re-calculated loan amount is less than what was previously determined, FEMA management will determine if an adjustment needs to be made to the loan(s).

- 4. Do you believe that your forecasted annual post-disaster revenue collections will exceed the cumulative annual estimated revenue provided in your application?*

Further review will be necessary if the applicant answers this question with "Yes." The CDL Coordinator will handle the review of this question in the same manner as question #3 above and will determine if an adjustment needs to be made to the loan(s).

- 5. Have there been any material adjustments to prior Year End Financial Reports submitted to FEMA?*

Further review will be necessary if the applicant answers this question with "Yes." The CDL Coordinator will engage a CDL Financial Analyst to recalculate the applicant's maximum loan amount based on any material adjustments. The original calculations used in the application will be recalculated in the same manner the original application was processed. FEMA management will determine if an adjustment needs to be made to the loan(s).

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C. Consequence of Non-Compliance

The CDL Coordinator can delay a disbursement if an applicant does not complete and sign the *Annual Financial Report* within 90 days after the applicant's fiscal year or if an applicant's response to one of the questions on the *Annual Financial Report* warrants review.

3. Workload of Disbursement and Annual Maintenance

The workload will be separated between the *Disbursement Request*, which is on-going maintenance activity, and the *Annual Financial Report*, which is an annual maintenance activity. Initially, an orientation briefing will be set up with key state officials to explain the on-going requirements and to communicate the possible consequences of not abiding by the requirements. After speaking with state officials, a briefing will occur with each state's applicants or designated representatives.

A. Disbursement Maintenance

The disbursement maintenance will take year round monitoring. The CDL Coordinator will mail or email the *Disbursement Request* to the applicants with a cover letter detailing its requirements. A file will be created for each of the applicants with funds remaining. The CDL Coordinator will make sure a *Disbursement Request* has been received for each applicant that has received a loan disbursement from DFC during a given month.

If an applicant has checked "yes" on the *Disbursement Request*, a CDL Financial Analyst will be engaged to recalculate the applicant's maximum loan amount.

B. Annual Maintenance

Once a year, at the completion of the applicant's fiscal year, an *Annual Financial Report* request will be sent to the applicant. The CDL Coordinator will mail or email the *Annual Financial Report* request to the applicant with a cover letter detailing its requirements. The applicant will be required to return the *Annual Financial Report* before the end of the first quarter (i.e., 90 days after the fiscal year end). This requirement will be met for the life of the loan. Failure to do so may jeopardize future disbursements.

The CDL Coordinator will create a file with an inventory checklist for each applicant. A new file will be created for each year and the file will contain the *Annual Financial Report*, the required copy of the Financial Statement for the Year and any other documents pertinent to the applicant for that year. Separate

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files for each year will make it easier to determine compliance for a given year and make it easier to locate documents for a particular year.

As the *Annual Financial Report* documents are returned, the CDL Coordinator will review the answers on the documents and make sure the document is completed properly. The applicant will be contacted if the *Annual Financial Report* is not properly completed and/or any questions regarding the applicant's answers need to be addressed.

If an applicant has checked "yes" to the financial conditions questions, a CDL Financial Analyst will be engaged to recalculate the applicant's maximum loan amount.

C. Disaster Finance Center (DFC)

The Disaster Finance Center (DFC) will disburse funds as scheduled unless otherwise instructed. On a monthly basis, DFC will provide the CDL Coordinator a Disbursement Schedule Report indicating the date of each of the applicants upcoming scheduled disbursements. DFC will also provide an Actual Disbursement Report reflecting the actual dollar value of the disbursements made to the applicants during that month. The CDL Coordinator will notify DFC of any adjustments to be made to the loan disbursements.

DFC will monitor compliance with the Credit Reform Act, including reviewing applicant's annual financial reports, if necessary, to determine whether the subsidy appears to require adjustment, and if so, by how much. The CDL Coordinator will provide DFC with access to applicant files containing the most recent financial statements, as well as expedite the collection of financial data, as needed and requested by DFC.

4. Staffing Plan

The CDL program will be maintained by a full-time, FEMA employed CDL Coordinator, who will provide the day to day monitoring and oversight of the program, and a CDL Financial Analyst who will be engaged as-needed to perform loan reviews.

A. CDL Coordinator

The CDL Coordinator will oversee the overall administration of the CDL Program, ensuring that the applicants are complying with the Program requirements. This individual will also perform the administrative functions including communicating with the applicants, record maintenance and retentions, and processing the disbursements and annual certifications.

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Initially, the CDL Coordinator will distribute the *Disbursement Request* letters via email and create files for the applicants.

Monthly, the CDL Coordinator will compare the received, completed, and signed *Disbursement Requests* from applicants to the schedule of DFC disbursements for each month. The CDL Coordinator will need to contact the applicants who did not complete a *Disbursement Request* for their disbursement. Scheduled disbursements may be held until a completed *Disbursement Request* has been received. The CDL Coordinator will also maintain the disbursement spreadsheet.

Annually, the CDL Coordinator will send out the *Annual Financial Report* request to all of the applicants. The *Annual Financial Report* request will be sent to the applicants based on their fiscal year end. FEMA anticipates sending the request to applicants 30 days after their fiscal year end. Applicants must return the *Annual Financial Report* along with their financial report before the end of their first quarter.

B. CDL Financial Analyst

A CDL Financial Analyst will be employed, as needed, to do the loan reviews. The CDL Financial Analyst should have prior accounting or finance experience with, preferably, prior experience preparing the CDL application. The CDL Financial Analyst will be engaged on an as needed basis to recalculate the applicant's maximum loan amount. The calculation will be figured in the same manner the original application was processed.

5. Tools Needed To Execute Maintenance Plan

To execute this maintenance plan several tools are required. These tools include the following:

1. Applicant Files with Applicant's contact information, CDL application(s), and Promissory Note with disbursement schedule.
2. DFC Produced Monthly Disbursement Schedule
3. DFC Produced Monthly Disbursement Report
4. Tracking Spreadsheets (Disbursement and Annual schedules)
5. Attachment 1 - Cover Letter for Disbursement Request
6. Attachment 2 - Disbursement Request
7. Attachment 3 - Cover Letter for Annual Financial Report request
8. Attachment 4 - Annual Financial Report request