

**OFFICE OF ECONOMIC DEVELOPMENT**

**Monitoring Report  
of  
SEEDCO FINANCIAL SERVICES, INC.**

**Part 2: Administrative Systems and File Review  
Date of Report: October 24, 2008**

This is a financial monitoring review report of the Community Development Block Grant (CDBG) contract between **SEEDCO Financial Services, Inc. (SEEDCO)**, Contractor and the **City and County of Denver, Office of Economic Development (OED)**, with the following contract information:

<b>Contract Number</b>	<b>Contract Period</b>	<b>Contract Amount</b>
GE71078	07/01/2007 – 12/31/2008	\$ 3,000,000.00

SEEDCO provides and administers community and economic development loans within the City and County of Denver with funds from private corporations leveraged with federal funds. OED contracts with SEEDCO to provide CDBG funded loans to businesses and developers, and provide technical assistance to support this loan activity. This contract is focused on the overall National Objective of job creation as defined in the contract and required by this CDBG funded grant.

On September 9, 2008 an entrance conference was conducted at the SEEDCO’s Denver office for the purpose of preparing the agency for the financial, administrative and files reviews. The purpose of the interviews was to track the progress of SEEDCO’s CDBG contract with OED in connection with the services to be provided as stated in their Agreement, and to identify the existence of any problem areas, identify any areas of non-compliance, discuss concerns, answer questions of the staff and offer technical assistance.

SEEDCO Denver staff members present at the entrance conference were Peter Chapman, Vice President and Executive Director, Gemma North, Administrative Assistant and Alan Nazzaro, Senior Financial Services Manager. Office of Economic Development staff included: Alexandria (Ria) de Dios, Senior Financial Analyst and Victoria Lindsay, Contract Administrator.

The exit conference was conducted October 10, 2008. The following SEEDCO staff members were present: Peter Chapman, Alan Nazzaro, Gemma North and Alyssa Swenson, Loan Officer. The OED staff present included: Ria De Dios, Victoria Lindsay and Jeff Romine, Chief Economist and Strategic Advisor.

## **Findings and Concerns**

This report uses two terms to define the results of the monitoring component; *Findings and Concerns*. A *Finding* indicates that the Contractor is not in compliance with an applicable law, regulation, or the terms and conditions of the Contract. A *Finding* requires immediate corrective action to remedy the situation, and timelines are proposed in the recommendation. A *Concern* indicates observation of a potential issue that should be addressed to result in increased efficiency or effectiveness. Concerns are also followed by recommendations.

## **Outcome**

### **Part 2(a): Administrative Systems & Internal Policies**

This review ensures that the administrative requirements of the contract are met and relevant policies are in place. The SEEDCO staff interviewed included Peter Chapman and Alan Nazzaro. Theresa Mendoza, Senior Loan Specialist and Victoria Lindsay were present from OED.

There were no *Findings* in this area of the review.

The following observation is being reported.

#### **Concern 2008-01: Organizational Chart**

*Condition:* The agency did not provide an updated organization chart with percentages of time that staff occupies charged to the CDBG funds identified.

*Recommendation:* The agency indicated in the interview that they did have an organization chart however; it was not updated since the CEO left. The agency should provide an organizational chart with the percentages of time each individual from the Denver office and NY offices identified on the chart (with CEO identified as TBD, if necessary) within 15 days of receipt of this report.

*Views of responsible officials and planned corrective actions:*

Response (a): Please see SFS Organization Chart Attached

*Anticipated completion date:* Immediately

### **Part 2(b): Financial Systems**

The financial systems review is to ensure that funds are allocated and expended and that appropriate financial systems are in place in order to operate a program in accordance with the terms of the contract. The following OED staff was involved in the financial review: Ria de Dios and Victoria Lindsay. The financial review was conducted in several intervals beginning

September 9, 2008 continuing with a conference call to New York on September 16 and September 29, 2008 in addition to numerous contacts through email over several weeks.

The Financial Systems Review report represents the observations subsequent to the financial review and is represented as an additional attachment to this initial report.

### **Part 2(c): File Review**

The file review portion includes an assessment of loans for which there exists draw down documentation and/or that have closed, together with appropriate documentation of loan procedures and required CDBG credentials. The following represent loans for which there have been draw downs utilizing CDBG funds and/or representing that a loan has been closed: *NC Check Solutions, Choices, Challenges, and Images (CCI) Daycare, The Inner City Health Clinic, The Santa Fe Tortilla Co., The River Clay Condominiums, and The Neighborhood Flix*. Non-CDBG funded loan files were not reviewed. It is not the desire of the City and County of Denver to monitor these transactions.

There is one (1) general and one (1) specific FINDING encompassing each loan file and seven (7) CONCERNS in this portion of the review.

### **Finding 2008-01: General File Conditions and Organization**

*Condition:* Overall, the loan files appear to be disorganized, with no order or consistency. There are many files with a variety of documents inconsistently filed. Therefore, it is understandable that some documents are present in some files but not in others. Technical Assistance offered: The Contract Administrator will provide the agency with a sample file and template to allow the agency to set up their files in a manner consistent with the way in which the City and County of Denver sets up their files in accordance with the direction of our HUD monitor.

Highlighted below are the details of each file, with the missing support documentation identified.

*Recommendation:* SEEDCO should purchase legal sized files with 6-8 compartments in order to facilitate file organization to ensure compliance. The Contract Administrator will put together a sample file and provide technical assistance identifying the preferred method of organizing a file in order to assist SEEDCO in organizing their documents to facilitate a more comprehensive approach to establishing support documentation.

All files should be reorganized in the prescribed method and missing documentation should be inserted by November 30, 2008.

*Views of responsible officials and planned corrective actions:*

Maintaining our files in a manner consistent with federal regulations and City policy is of utmost importance to Seedco Financial. SF-D administrative and underwriting staff made several

requests for OED guidance with the set-up of our files between October 2007 and June 2008, and scheduled appointments to have City personnel conduct onsite reviews of our files. These appointments, however, were cancelled by OED staff and never re-scheduled.

Complete closing files are maintained in the Seedco Financial national headquarters and are available for review upon request. We also maintain files in the Denver Office, either electronically or in hard-copy form. Historically, we have attempted to minimize some of the administrative demands associated with keeping hard copies of all closing documents in our physical files, but are committed to maintaining our records in accordance with OED's requirements. To facilitate this process, we have requested that OED deploy a staff person equipped with a "Sample File" to advise us as to the City's required file format.

*Anticipated completion date:*

No response was submitted by SEEDCO to this request.

**LOAN FILE #1: NC Check Solutions**

The following loan information for <i>NC Check Solutions</i> is not available in the file.
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- Personal financial statements
- Credit Bureaus on principals
- Loan application
- Business plan
- Financial Projections from Borrower
- Promissory Note
- Guaranty
- Borrowing Resolution
- Security Agreement
- UCCs
- Loan proceeds use
- Credit denial letters identifying need for gap financing
- Appropriateness determination to support level of financing requested
- Statement of National Objective to support job creation measurement
- Documentation of leveraged funds
- Insurance
- Draw requests from City with supporting documents
- Copies of checks or wire transfer documentation
- Requests from borrower with supporting documents (invoices) of how the funds were used

CDBG documents Missing from File:

- Job Grid
- E & I Forms or at minimum documentation from SEEDCO that they are monitoring the job creation goal

*Views of responsible officials and planned corrective actions:*

NC Check Solutions: All but one of the documents cited as “not available in the file” are available in SF-D hard copy and electronic files. These documents include the personal and business financial statements that illustrate that collateral was unavailable to secure this loan.

*Anticipated completion date:* To be discussed during reconciliation of this report.

### **Finding 2008-02: Evidence of Loan Collateral**

*Condition:* The analysis provided by SFS file documentation states that there was no collateral necessary; however, we cannot determine how SFS reached this conclusion due lack of availability of a personal financial statement nor business profit and loss documents in the file.

*Recommendation:* In accordance with SFS’ contract, Section II.2.d SFS should provide documentation to support “obtaining ‘general recourse’ to a borrowers assests...as a part of the due diligence process...”. SEEDCO should insert this documentation into the file by November 30, 2008.

*Views of responsible officials and planned corrective actions:*

The financial documentation in the NC Checks Loan File includes personal and business financial statements supporting the conclusion that collateral was unavailable to secure this loan.

*Anticipated completion date:* To be discussed during reconciliation of this report.

### **Concern 2008-01: Denver CDBG funds used outside corporate limits**

*Condition:* SEEDCO loaned Denver CDBG funds to an Aurora business.

*Recommendation:* SEEDCO should provide explanation for the reasoning behind loaning an Aurora buisness Denver funds and how Denver residents would benefit from entering into such collaboration outside the City and County of Denver.

*Views of responsible officials and planned corrective actions:*

As detailed in the loan request/recommendation submitted to the Loan Review Committee (and which is available in Seedco Finanacial-Denver’s files), only Seedco Financial private dollars were used to support the Aurora activities of NC Checks. Denver CDBG dollars were applied exclusively to the businesses’s Denver activities.

*Anticipated completion date:* To be discussed during reconciliation of this report.

## LOAN FILE #2: The Neighborhood Flix

The following loan information for *The Neighborhood Flix* is not available in the file:

- Personal financial statements
- Business plan
- Financial Projections from Borrower
- Credit denial letters identifying need for gap financing
- Appropriateness determination to support level of financing requested
- Substantiation for FF & E costs
- Statement of National Objective Job Creation
- Supporting documentation for \$89,000 advance; i.e. invoices
- Business Plan
- Appraisal
- Documentation for private leverage
- Insurance
- Accounting of disbursements of the loan proceeds with invoices
- Draw requests from City
- Tax returns for individuals/business to determine credit worthiness

There are no CDBG documents missing from File.

### Concern 2008-02: Job Creation Target and achievement

*Condition:* Neighborhood Flix received a loan directly from OED and a loan from SEEDCO utilizing CDBG funds under the OED-SEEDCO Contract. This created a requirement for job creation under both contracts. Neighborhood Flix reported to SEEDCO a projected job creation of 38 full time jobs. The same firm reported to OED a projected creation of 14 jobs, in the parallel loan. The combined CDBG investment requires a total job creation of 52 full time jobs with 24 months of loan closing. OED staff has verified the creation of 16 FTEs through the collection of Employment and Income (E&I) Verifications. In an early business plan provided by the firm, the estimated job creation for the business enterprise was 25 full time positions. A likely potential exists that the borrower may have provided a ‘duplication’ of some jobs to each lender.

*Recommendation:* SEEDCO should provide specific detail in the loan folder to justify job estimates by borrowers, especially when job estimates either exceed the business plan or when OED and SEEDCO have parallel loans to a borrower.

Additionally, it should be noted that, at creation of this report, the business has closed and an effort is being made to find another business operator to assume the loan. In the event that this occurs, the transference of obligations and same terms would apply to the new entity.

*Anticipated completion date:*

No response was submitted by SEEDCO to this request.

*Views of responsible officials and planned corrective actions:*

The reviewers cited a report dated 8/4/08 to the City projecting the creation of 38 jobs for this project. This report was part of a “pipeline summary” of Seedco Financial-Denver projects and included a projection, based upon data received by the borrower, as to the maximum number of jobs projected by the business owner at full build-out of the project. The “pipeline summary” does not reflect the contractual amount of jobs that the client agreed to create, which is listed within the case files. The actual number of jobs that the client agreed to create for the investment, as documented in our original agreement with the entity, is calculated by dividing the full investment by the contractually-required CDBG dollar amount of \$50,000 per job. In this case, that yields 17 FTE; our files contain E& I forms and an FTE calculation sheet which bear this out.

Seedco Financial, which made a secure loan to Neighborhood Flix, is also working closely with the City and other creditors of the now-defunct business to ensure as complete a restitution of loan funds as possible. It is too early in the process to determine the outcome of the future continuation of the operation.

*Anticipated completion date:* To be discussed during reconciliation of this report.

**LOAN FILE #3: Inner City Health Center**

The following loan information for *Inner City Health Center (ICHC)* is not available in the file.

- Personal financial statements
- Credit Bureaus on principals
- Loan application
- Business plan
- Financial Projections from Borrower
- Promissory Note
- Guaranty
- Borrowing Resolution
- Security Agreement
- UCCs
- Loan proceeds use
- Credit denial letters identifying need for gap financing
- Appropriateness determination to support level of financing requested
- Statement of National Objective job creation goal
- Leverage support indicating SEEDCO private leverage
- Insurance
- Copies draw requests from the City
- Copies of checks or wire transfers supporting the flow of funds
- Copy of check requests supporting the \$800,000 disbursement
- Copy of documentation supporting the \$800,000 payoff

CDBG documents Missing from File:

- Job Grid
- E & I Forms or at minimum documentation from SEEDCO that they are monitoring the job creation goal

*Views of responsible officials and planned corrective actions:*

Inner City Health: Complete closing files are maintained in the Seedco Financial national headquarters and are available for review upon request. We also maintain files in the Denver Office, either electronically or in hard-copy form. Historically, we have attempted to minimize some of the administrative demands associated with keeping hard copies of all closing documents in our physical files, but are committed to maintaining our records in accordance with OED's requirements. To facilitate this process, we have requested that OED deploy a staff person equipped with a "Sample File" to advise us as to the City's required file format.

*Anticipated completion date:*

No response was submitted by SEEDCO to this request.

### **Concern 2008-3: Contrary Loan Value information**

*Condition:* SEEDCO documents indicate \$1,650,000 loaned to ICHC, however, promissory note indicates only \$1,500,000 loaned.

*Recommendation:* Either SEEDCO documents should be updated to reflect correct loan value, or the promissory note should have been provided for the correct loan amount. SEEDCO should ensure that all future loan documents are consistent to the value of the loan.

*Views of responsible officials and planned corrective actions:*

The \$1,650,000 was the amount approved for this loan. The borrower came to the closing with an additional \$150,000 because of unanticipated early success in its capital campaign for this project.

*Anticipated completion date:* To be discussed during reconciliation of this report.

### **Concern 2008-4: Job Creation Achievement**

*Condition:* Inner City Health Center, projected the creation of 54.5 jobs (8/4/08 SFS report to the City). This loan file had no information indicating who would be creating these jobs, number and classification of jobs, timeline for hiring, etc.

*Recommendation:* These documents should be provided in the file and SFS should create a system by they are monitoring the job creation over the remaining 12 months from date of closing.

*Views of responsible officials and planned corrective actions:*

The acquisition loan made by Seedco Financial for the property enabled Inner City Health Center to secure an asset that is essential to the redevelopment effort that will allow the non-profit to expand its operation. This expansion is projected, at full build-out, to lead to the creation of the 54.5 jobs by Inner City Health. This job creation projection is based on information furnished by the borrower. The actual number of jobs that the client agreed to create for the investment, as documented in our original agreement with the entity, is calculated by dividing the full investment by the contractually required \$50,000 per job. By this standard, the project will yield 33 jobs by the end of the 24-month attainment period (as per HUD regulations). In short, the borrower has two years to reach its job creation goal, which, we believe, should commence with the construction phase of the project.

*Anticipated completion date:* To be discussed during reconciliation of this report.

#### **Concern 2008-5: Job Creation Target**

*Condition:* Since this particular acquisition loan was paid off in less than a year, this loan may have in practice transformed by the borrower into a 'bridge' loan. ICHC has two years to create 54.5 jobs as contracted from loan closing to fulfill the job creation requirement.

*Recommendation:* SEEDCO should continue to monitor the borrower, even though the loan has been paid off, to ensure achievement of the defined national objective benefit of the reported job creation.

*Views of responsible officials and planned corrective actions:*

Seedco Financial will monitor the job creation for this project through the end of the attainment period.

*Anticipated completion date:* To be discussed during reconciliation of this report.

#### **LOAN FILE #4: Santa Fe Tequila Restaurant**

The following loan information for *Santa Fe Tequila Restaurant* is not available in the file.

- Personal financial statements
- Credit Bureaus on principals
- Business plan
- Financial Projections from Borrower
- Guaranty
- Borrowing Resolution
- UCCs
- Loan proceeds use
- Credit denial letters identifying need for gap financing

- Appropriateness determination to support level of financing requested
- Statement of National Objective to support job creation measurement
- Draw requests from City with supporting documents
- Copies of checks or wire transfer documentation
- Requests from borrower with supporting documents (invoices) of how the funds were used
- Supporting documentation on usage of \$100,000 advance (invoices); and additional \$40,000 request.
- Misfiled documents: \$400,000 CCI draw down in *Santa Fe* file
- The invoices don't match the total expended
- Unsure of how the loan is being secured

*Views of responsible officials and planned corrective actions:*

Santa Fe Tequila Restaurant: Complete closing files are maintained in the Seedco Financial national headquarters and are available for review upon request. We also maintain files in the Denver Office, either electronically or in hard-copy form. Historically, we have attempted to minimize some of the administrative demands associated with keeping hard copies of all closing documents in our physical files, but are committed to maintaining our records in accordance with OED's requirements. To facilitate this process, we have requested that OED deploy a staff person equipped with a "Sample File" to advise us as to the City's required file format.

*Anticipated completion date:*

No response was submitted by SEEDCO to this request.

**Concern 2008-6: Job Creation Target and Achievement:**

*Condition:* The Santa Fe Tequila Company projected the creation of 12 full time jobs, as reported to SEEDCO. Previously, Santa Fe Tequila had contractually committed to creating 9 jobs through an OED loan. Total number of jobs now required is 21, due to the combined commitments of both loans. OED staff has verified, through the collection of E&I forms, that 9 FTE's have been created to date. Similar to previous comments, the likely potential exists that the business may have twice committed jobs – due to the likely level of jobs which could be committed through anticipated increased business.

*Recommendation:* SEEDCO and OED should continue to monitor the borrower and compare outcomes to ensure the stated job creation goals are achieved. Additionally, review and use of industry standard and agencies specifics and limitations should be referenced, in an effort to provide for an accurate projection of FTE positions which may be created.

*Views of responsible officials and planned corrective actions:*

The reviewers cited a report dated 8/4/08 to the City projecting the creation of 12 jobs for this project. This report was part of a "pipeline summary" of Seedco Financial-Denver projects and included a projection, based upon data received by the borrower, as to the maximum number of

jobs projected by the business owner at full build-out of the project. The “pipeline summary” does not reflect the contractual amount of jobs that the client agreed to create, which is listed within the case files. The actual number of jobs that the client agreed to create for the investment, as documented in our original agreement with the entity, is calculated by dividing the full investment by the contractually-required CDBG dollar amount of \$50,000 per job. In this case, that yields 4 FTE; our files contain E& I forms and an FTE calculation sheet which bear this out.

*Anticipated completion date:* To be discussed during reconciliation of this report.

### **LOAN FILE #5: River Clay Condominiums**

The following loan information for *River Clay Condominiums* is not available in the file.

- Credit Bureaus on principals and or tax returns to determine credit worthiness
- Business plan
- Borrowing Resolution
- UCCs
- Loan proceeds use
- Credit denial letters identifying need for gap financing
- Appropriateness determination to support level of financing requested
- Statement of National Objective to support job creation or technical assistance measurement
- Copy of draw requests from City with supporting documents
- Requests from borrower with supporting documents (invoices) of how the funds were used
- Supporting documentation on usage of \$200,000 advance (invoices)
- Copy of Construction contract/Bid
- Tax Returns from principals
- Appraisal post build
- Misfiled document: There is closing documents checklist information on Neighborhood Flix in the RCC file.

*Views of responsible officials and planned corrective actions:*

River Clay Condominiums: Complete closing files are maintained in the Seedco Financial national headquarters and are available for review upon request. We also maintain files in the Denver Office, either electronically or in hard-copy form. Historically, we have attempted to minimize some of the administrative demands associated with keeping hard copies of all closing documents in our physical files, but are committed to maintaining our records in accordance with OED’s requirements. To facilitate this process, we have requested that OED deploy a staff person equipped with a “Sample File” to advise us as to the City’s required file format.

*Anticipated completion date:*

No response was submitted by SEEDCO to this request.

## **LOAN FILE #6: Challenges, Choices and Images Daycare**

The following loan information for *Challenges, Choices and Images Daycare* is not available in the file.

- There was no file available and thus no loan or CDBG documentation was reviewed for this transaction even though a draw down request for \$400,000 exists
- Personal financial statements
- Credit Bureaus on principals
- Business plan
- Financial Projections from Borrower
- Guaranty
- Borrowing Resolution
- UCCs
- Loan proceeds use
- Credit denial letters identifying need for gap financing
- Appropriateness determination to support level of financing requested
- Statement of National Objective to support job creation measurement
- Draw requests from City with supporting documents
- Copies of checks or wire transfer documentation
- Requests from borrower with supporting documents (invoices) of how the funds will be used
- Unsure of how the loan would be being secured
- No documentation regarding the decision not to fund and why

*Condition:* The loan did not close.

*Views of responsible officials and planned corrective actions:*

Challenges, Choices and Images Daycare: Since this loan did not close there is no “closing file” The loan analyses in connection with this aborted transaction are available to OED upon request.

*Anticipated completion date:*

No response was submitted by SEEDCO to this request.

### **LOAN FILES: All Files listed**

**GENERAL CONCERN 2008-7:** In cross-referencing the E&I forms for *The Neighborhood Flix* and *Santa Fe Tequila Company* transactions in both the OED and SEEDCO files, it was concluded that there were duplications (i.e. borrowers gave same employee verifications to both lenders).

**RECOMMENDATION:** Where there are jointly funded loans, SEEDCO & OED should develop a system by which shared borrowers do not provide duplicate E & I forms by

communicating to determine if individuals have already been reported within CDBG funded loans, as under our agreement with HUD, we are required to report unduplicated counts.

*Views of responsible officials and planned corrective actions:*

At the time of this Compliance Monitoring Review there was no policy in place between OED and Seedco Financial regarding the counting of newly- created jobs for projects receiving financing from both parties. OED and Seedco Financial are currently working on such a policy, and expect to have a resolution in the short-term. (NB: There appears in most of these instances to be a sufficient number of jobs being created or retained to meet HUD's minimum Aggregate Public Benefit Standards for the amount of CDBG funds invested by both parties.)

*Anticipated completion date:* To be discussed during reconciliation of this report.

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