

**UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Utilities Service**

RUS Bulletin 1780-30

SUBJECT: Water Programs Audit Guide and Compliance Supplement

TO: Water and Environmental Programs Staff

EFFECTIVE DATE: Date of Approval

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OFFICE OF PRIMARY INTEREST: Water and Environmental Programs

PREVIOUS BULLETIN: This bulletin is updated annually.

FILING INSTRUCTIONS: This bulletin may be accessed through the Water Programs home page at: www.usda.gov/rus/water/.

PURPOSE: This audit guide and compliance supplement is available to assist auditors conducting Water Programs audits (i.e., GAGAS audits). RUS Bulletin 1780-30 should not be used for audits conducted in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

/s/ Gary Morgan
Acting Assistant Administrator, WEP

6/1/01
Date



United States
Department of
Agriculture

Office of
Inspector General

AUDIT PROGRAM

RURAL UTILITIES SERVICE

**Audits of Recipients of Water Programs Grants,
Loans, and Loan Guarantees**

The attached audit program provides guidance for independent public accountants in conducting financial statement audits of recipients of Rural Utilities Service Water Programs grants, loans, and loan guarantees, except for those audits required to be performed in accordance with Office of Management and Budget Circular A-133

APPROVED BY:

Robert W. Young
for RICHARD D. LONG
Assistant Inspector General
For Audit

6/8/01
Date

U. S. Department of Agriculture

Rural Utilities Service

**Water Programs Audit Guide
And Compliance Supplement**

RUS Bulletin 1780-30

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Water Programs Audit Guide and Compliance Supplement

The following audit guide provides information for independent public accountants or for Federal, State or local government audit organizations in conducting financial statement audits of recipients of Water Programs loans, grants, and loan guarantees. The audit guide includes compliance supplements for Water Programs audits performed in accordance with generally accepted government auditing standards (GAGAS). Auditors conducting financial statement audits in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, should consult the OMB Circular A-133 Compliance Supplement.

A. Purpose

The Rural Utilities Service (RUS) is an agency of the U.S. Department of Agriculture (USDA) which is responsible for rural infrastructure assistance in electricity, water, and telecommunications. The Water Programs Division is a part of RUS and is responsible for providing loans and grants to finance the construction of water and wastewater facilities throughout the country. Water Programs also provides grants to organizations for technical assistance and training related to water and wastewater and solid waste management facilities. In addition to these programs, Water Programs is responsible for providing loans for Resource Conservation and Development and Watershed Protection and Flood Prevention projects. Water Programs is administered at the state and local level through the USDA Rural Development (RD) mission area.

This audit program is not a substitute for knowledge of applicable laws, regulations, and operating procedures. The auditor must use professional judgment in tailoring the audit approach to incorporate variables encountered during the audit. However, the minimum audit procedures provided in this audit program are necessary for uniform and consistent coverage.

This audit program is not intended to address audit requirements that are required under the Single Audit Act Amendments of 1996 and OMB Circular A-133. However, for the years in which entities are not subject to OMB Circular A-133 requirements, the entities are subject to Water Programs audit requirements, and this audit guide should be used.

B. Abbreviations

AICPA	American Institute of Certified Public Accountants
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
FmHA	Farmers Home Administration
GAAS	Generally Accepted Auditing Standards
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	General Accounting Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
RD	Rural Development
RUS	Rural Utilities Service
SAS	AICPA's statement on auditing standards

C. Background

Water Programs requires recipients to submit annual audited financial statements. The audit of those financial statements is required to be performed in accordance with GAGAS. These financial statements are the responsibility of the auditee's management. The financial statements should be prepared in conformity with generally accepted accounting principles (GAAP) unless state statutes or other funding sources require otherwise. In addition, the financial statements should be presented on a comparative basis for the current and preceding year. An entity submitting its initial audit report to Rural Development may submit single year financial statements.

The Federal regulatory references for audit requirements are as follows:

CFDA No. 10.760	Water and Waste Loan and Grant Program -- 7 CFR Part 1780.47
CFDA No. 10.761	Technical Assistance and Training Grants -- 7 CFR Part 1775.25
CFDA No. 10.762	Solid Waste Management Grants -- 7 CFR Part 1775.25
CFDA No. 10.763	Emergency Community Water Assistance Grants -- 7 CFR Part 1780.47
CFDA No. 10.764	Resource Conservation and Development -- 7 CFR Part 1780.47
CFDA No. 10.765	Watershed Protection and Flood Prevention -- 7 CFR Part 1780.47
CFDA No. 10.770	Water and Waste Disposal Loans and Grants (Section 306C) -- 7 CFR Part 1780.47

D. Pertinent Publications and Federal Regulations

AICPA Statements on Auditing Standards

GAO Government Auditing Standards (1994 Revision)

7 CFR Part 1780 -- Water and Waste Loan and Grant Program

7 CFR Part 1781 -- Resource Conservation and Development Loans and
Watershed Loans and Advances

7 CFR Part 1775 -- Technical Assistance and Training Grants

7 CFR Part 1777 -- Section 306C WWD Loan and Grants

7 CFR Part 1778 -- Emergency Community Water Assistance Grants

E. Standards For Conducting Audits

The Comptroller General of the United States has published Government Auditing Standards (GAGAS), 1994 Revision, which contains standards for audits of government organizations, programs, activities, and functions. These standards are to be followed by Federal, state, and independent certified public accountants when auditing entities receiving financial assistance provided by Water Programs.

The American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards (SASs) have been incorporated into GAGAS for financial audits, and must be followed. This audit program is not intended to provide guidance regarding adherence to the SASs.

F. Engagement Letter

The auditor should prepare a written engagement letter for the audited entity, which clearly sets forth the terms, nature, and limitations of the audit engagement. The engagement letter may include terms and conditions that the auditee and the auditor deem appropriate; however, the following provisions should be included in the audit agreement:

1. A statement that the auditor will perform and document the audit work in accordance with GAGAS and the professional standards of the AICPA;
2. A statement that the auditor will submit the completed audit and accompanying audit letters to the entity's governing body 30 days prior to the date the audit is due to Rural Development;
3. A statement that the auditor will make all audit-related documents, including workpapers, available to Rural Development, OIG, or their duly authorized representatives, upon request; and
4. The auditor will report, in writing, all irregularities, as well as indications of fraud, abuse, or illegal acts, whether material or not, to the entity's governing body, Rural Development, and OIG.

G. Audit Objectives

Entities receiving financial assistance from Water Programs are required to submit financial statement audits. The objective of a financial statement audit is to provide reasonable assurance about whether the financial statements present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

H. General Standards

Qualifications

The audit staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.

To meet this standard, the audit organization should have a program to ensure that its staff maintain professional proficiency through continuing education and training. Each auditor responsible for planning, directing, conducting, or reporting on audits under GAGAS standards should complete, every 2 years, at least 80 hours of continuing education and training which contributes to the auditor's professional proficiency. At least 20 hours should be completed in any 1 year of the 2-year period. Individuals responsible for planning or directing an audit, conducting substantial portions of the field work, or reporting on the audit under GAGAS should complete at least 24 of the 80 hours of continuing education and training in subjects directly related to the government environment and to government auditing. If the audited entity operates in a specific or unique environment, auditors should receive training that is related to that environment.

Qualifications for staff members conducting audits include:

1. Knowledge of the methods and techniques applicable to government auditing and education, skills, and experience to apply such knowledge to the audit being conducted;
2. Knowledge of government organizations, programs, activities, and functions;

3. Skills to communicate clearly and effectively, both orally and in writing; and
4. Skills appropriate for the audit work being conducted.

Independence

In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.

Due Professional Care

Due professional care should be used in conducting the audit and in preparing related reports. Due professional care imposes a responsibility upon each auditor to observe GAGAS. In addition, exercising due professional care means using sound judgment in establishing the scope, selecting the methodology, and choosing tests and procedures for the audit. The same sound judgment should be applied in conducting the tests and procedures and in evaluating and reporting the audit results.

Auditors should use sound professional judgment in determining the standards that apply to the work to be conducted. The auditors' determination that certain standards do not apply to the audit should be documented in the working papers. Situations may occur in which government auditors are not able to follow an applicable standard and are not able to withdraw from the audit. In those situations, the auditors should disclose in the scope section of the report, the fact that an applicable standard was not followed, the reasons therefor, and the known effect that not following the standard had on the results of the audit.

Quality Control

Each audit organization conducting audits in accordance with GAGAS standards should have an appropriate internal quality control system in place and undergo an external quality control review.

The internal quality control system should provide reasonable assurance that the audit organization: (1) has adopted, and is following, applicable auditing standards and (2) has established, and is following, adequate audit policies and procedures.

An external quality control review should be conducted at least once every 3 years by an organization not affiliated with the organization being reviewed. The external quality control review should determine whether the audit organization's internal quality control system is in place and operating effectively to provide reasonable assurance that established policies and procedures and applicable auditing standards are being followed.

External quality control reviews should be conducted through or by the AICPA, National State Auditors Association, National Association of Local Government Auditors, President's Council on Integrity and Efficiency, Executive Council on Integrity and Efficiency, and Institute of Internal Auditors.

Auditors performing an audit in accordance with GAGAS and Water Programs requirements should provide their most recent external quality control review report to the auditee.

I. Field Work Standards

Planning

The field work is to be adequately planned and assistants, if any, are to be properly supervised. Auditors should also consider materiality, among other matters, in determining the nature, timing and extent of auditing procedures and in evaluating the results of those procedures.

Auditors should communicate information to the auditee, the individuals contracting for or requesting the audit, and the audit committee regarding the nature and extent of planned testing and reporting on compliance with laws and regulations and internal control over financial reporting.

Auditors should follow up on known material findings and recommendations from previous audits, and report on the status of uncorrected material findings and recommendations from prior audits that affect the financial statements.

Auditors should design the audit to provide reasonable assurance of detecting fraud that is material to the financial statements, and material misstatements resulting from direct and material illegal acts.

Auditors should be aware of the possibility that indirect illegal acts may have occurred. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.

Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred.

The compliance tests included in this audit program identify material compliance requirements that could, if not observed, have a direct and material effect on the financial statements. At a minimum, the auditor should assess, for each listed compliance requirement, the risks that material noncompliance could occur, and based on that assessment, design steps and procedures to test compliance with applicable laws, regulations, loan covenants and agreements. The auditor should document each compliance requirement that does not apply, or for which the auditor determines based on the assessment, that tests are not necessary to provide a reasonable assurance of detecting instances of noncompliance that could have a material effect on the financial statements.

The Water Programs compliance supplements are not a substitute for knowledge of applicable laws, regulations, loan covenants and agreements. The material compliance requirements, as identified in the attachments, include references to applicable Water Programs regulations which provide specific criteria relating to the compliance requirements. As such, Water Programs regulations should be reviewed by the auditor to obtain a full understanding of the compliance requirements.

Evaluation of Internal Controls

A sufficient understanding of internal control is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.

In planning the audit, auditors should document in the working papers (1) the basis for assessing control risk at the maximum level for assertions related to material account balances, transaction classes, and disclosure components of financial statements when such assertions are significantly dependent upon computerized information systems and (2) consideration that the planned audit procedures are designed to achieve audit objectives and to reduce audit risk to an acceptable level.

Obtaining Competent Evidence

Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

A record of the auditors' work should be retained in the form of working papers. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors significant conclusions and judgments.

J. Reporting Standards

Adherence to GAAP

The report shall state whether the financial statements are presented in conformity with generally accepted accounting principles.

Consistent Application

The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.

Adequate Disclosure

Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.

Expression of an Opinion

The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefor should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.

Reporting Compliance with GAGAS

The audit report should state that the audit was made in accordance with GAGAS.

Reporting on Compliance With Laws and Regulations and Internal Control Over Financial Reporting

As required by GAGAS, the auditor must prepare a written report on the tests performed for compliance with applicable laws, regulations, contracts, and grants, and on the auditee's internal control and on the assessment of control risk made as part of the financial statement audit. This report must be signed by the auditor and must include (1) the scope of the auditors' testing of compliance with laws and regulations and internal control over financial reporting and present the results of those tests, or (2) refer to the separate report (s) containing that information. In presenting the results of those tests, auditors should report fraud, illegal acts, other material noncompliance, and reportable conditions in internal control over financial reporting. In some circumstances, auditors should report fraud and illegal acts directly to parties external to the audited entity.

When auditors conclude, based on evidence obtained, that fraud or an illegal act has occurred or is likely to have occurred, they should report all relevant information. Auditors need not report information about fraud on an illegal act that is clearly inconsequential. Auditors should present in the report the same fraud and illegal acts that they report to audit committees under AICPA standards.

Auditors should also report other noncompliance that is material to the financial statements.

Auditors should report deficiencies in internal control that they consider to be reportable conditions as defined in the AICPA's standards. In reporting reportable conditions, auditors should identify those that are individually or cumulatively material weaknesses.

Privileged and Confidential Information

If certain information is prohibited from general disclosure, the audit report should state the nature of the information omitted and the requirement that makes the omission necessary. Certain information may be prohibited from disclosure by Federal, state, or local laws or regulations. If such requirements prohibit auditors from including pertinent data in the report, they should state the nature of the information omitted and the requirement that makes the omission necessary.

Report Distribution

Written audit reports are to be submitted by the audit organization to the auditee and organization requiring the audit in a timely manner to appropriate officials of the auditee and external funding organizations.

Attachment 1 **Water Programs Systems For Rural Communities**

CFDA Nos. 10.760, 10.763, and 10.770

I. Program Objectives

As authorized by Section 306 of the Consolidated Farm and Rural Development Act, as amended (7 U.S.C. 1926), Water Programs is authorized to provide loan and grant assistance for new and improved water and /or waste disposal systems serving rural areas when financing is not available at reasonable rates and terms from other sources.

II. Program Procedures

Water Programs is authorized to provide loan and grant assistance to eligible applicants for water and waste disposal facilities in rural areas and towns of up to 10,000 people. Eligible applicants include:

- (a) A public body, such as a municipality, district, county, authority, Indian tribe, or other political subdivision of a state, territory or commonwealth; or
- (b) An organization operated on a not-for-profit basis, such as a cooperative, association, or private corporation.

III. Compliance Requirements and Suggested Audit Procedures

A. Activities Allowed or Unallowed

Compliance Requirement

Loan and grant funds may be expended on eligible project costs, within the budgeted amounts, as approved by Rural Development. These expenditures include items such as land acquisition, water rights, legal fees, engineering fees, construction costs, and the purchase of equipment (7 CFR Part 1780.9).

Suggested Audit Procedures

- Review the loan resolution, grant agreement, and/or bond resolution.
- Test borrower's expenditures to determine that loan and/or grant funds were used only for eligible purposes.
- Determine that the borrower obtained prior concurrence from Rural Development for expenditures (7 CFR Part 1780.45 (e)).

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, Earmarking

Compliance Requirement

Borrowers may be required to provide funds from other sources as specified in the grant agreement (7 CFR Part 1780.45 (a) and (c)) and/or Letter of Conditions issued by Rural Development (7 CFR Part 1780.41 (5)).

Suggested Audit Procedures

- Examine the grant agreement and Letter of Conditions, and ascertain the amount of funds to be provided by the recipient.
- Test the financial records to determine if matching fund requirements were met.

D. Reporting Requirements

Compliance Requirement

The following financial or management reports must be periodically submitted to Rural Development:

- Annual audited financial statements within 150 days of the entity's fiscal year-end (7 CFR Part 1780.47 (a)).
- Form RD 442-2, Statement of Budget, Income and Equity (7 CFR Part 1780.47 (f) (2)).
- Form RD 442-3, Balance Sheet (7 CFR Part 1780.41 (a) (3)).

Suggested Audit Procedure

- Review Forms RD 442-2 and 442-3, and determine that the information presented is in agreement with the borrower's financial records. Borrowers may submit other forms that provide similar information.

E. Special Tests and Provisions

Compliance Requirement

A loan resolution will be adopted by public bodies using Form RD 1942-47/RUS Bulletin 1780-27, Loan Resolution. The following sections of the loan resolution restrict the financial operations of the borrower: Section 6 (sale, transfer and lease of facility); Section 7 (contacts, agreements and liabilities); Section 8 (depositories); Section 10 (revenues); and Section 12 (books and records) (7 CFR Part 1780.45 (a) (2)).

Suggested Audit Procedures

- Review the loan resolution and applicable regulations.
- Review and test the financial and related records to determine compliance with the restrictions placed on Water Programs borrowers by the loan resolution.

Compliance Requirement

A loan resolution will be adopted by not-for-profit organizations using Form RD 1942-9/RUS Bulletin 1780-28, Loan Resolution Security Agreement. The following sections of the loan resolution restrict the financial operations of the borrower: Section 4 (protection and disposition of funds); Section 5c (revenues); Section 5e (books and records); Section 5h (contracts, agreements, and liabilities); and Section 5i (sale, transfer or lease of facility) (7 CFR Part 1780.45 (a) (2)).

Suggested Audit Procedures

- Review the loan resolution and applicable regulations.

- Review and test the financial and related records to determine compliance with the restrictions placed on Water Programs borrowers by the loan resolution.

Compliance Requirement

Section 319 of Public Law (P. L.) 101-121, the Department of Interior and Related Agencies Appropriations Act, prohibits applicants and recipients of Federal contracts, grants and loans from using appropriated funds for lobbying the Federal government in connection with a specific award. Section 319 also requires each individual who requests or receives a Federal contract, grant, loan, or a Federal commitment to guarantee a loan, to disclose the expenditure of any funds, other than appropriated funds, for lobbying activities.

FmHA Instruction 1940-Q, Restrictions on Lobbying, requires that recipients of assistance exceeding certain financial thresholds provide certifications concerning lobbying activities, and submit disclosure statements if nonappropriated funds have been used for certain purposes.

Suggested Audit Procedure

- The auditor will test for compliance with the provisions of Sec. 319 of P. L. 101-121, by verifying that the required certifications and disclosure statements have been prepared (7 CFR Part 1780.33 (h) (7)).

Attachment 2 Technical Assistance and Training Grants

CFDA Nos. 10.761 and 10.762

I. Program Objectives

Grants for technical assistance and training (TAT) for water and wastewater facilities are authorized under Section 306(a)(16)(A) of the Consolidated Farm and Rural Development Act (CONACT), (7 U.S.C. 1926(a)), as amended.

Grants for solid waste management (SWM) are authorized under Section 310B of the CONACT, (7 U.S.C. 1932), as amended.

The objectives of the TAT grant program are to: (1) identify and evaluate solutions to water and waste disposal problems in rural areas; (2) assist applicants in preparing applications for water and waste grants made in accordance with 7 CFR Part 1780; (3) improve operation and maintenance of existing water and waste disposal facilities in rural areas.

The objectives of the SWM grant program are to: (1) reduce or eliminate pollution of water resources; (2) improve planning and management of solid waste sites.

II. Program Procedures

TAT grants are made to private not-for-profit organizations that have been granted tax exempt status by the Internal Revenue Service (IRS). SWM grants are made to nonprofit organizations including: (1) private not-for-profit organizations that have been granted tax exempt status by the IRS; and (2) public bodies including local government-based multi-jurisdictional organizations.

III. Compliance Requirements and Suggested Audit Procedures

A. Types of Services Allowed or Unallowed

Compliance Requirements

TAT grants may be used to: (1) identify and evaluate solutions to water problems of associations in rural areas relating to source, storage, treatment, and distribution; (2) identify and evaluate solutions to waste problems of associations in rural areas relating to collection, treatment, and disposal; (3) assist associations that have filed an application with Rural Development in the preparation of water and/or waste loan and /or grant applications; (4) provide training to association personnel to improve the management, operation and

maintenance of water and waste disposal facilities; (5) pay authorized expenses associated with providing the technical assistance and/or training.

SWM grants may be used to: (1) evaluate current landfill conditions to determine threats to water resources; (2) provide technical assistance and/or training to enhance operator skills in the maintenance and operation of active landfills; (3) provide technical assistance and/or training to help communities reduce the solid waste stream; (4) provide technical assistance and/or training for operators of landfills which are closed or will be closed in the near future with the development/implementation of closure plans, future land use plans, safety and maintenance planning, and closure scheduling within permit requirements.

The grantee must have an effective financial management system in place to monitor the use of funds in accordance with the terms of the grant agreement (RUS Bulletin 1775-1).

Suggested Audit Procedures

- The auditor should determine whether the grantee has an effective financial management system in place to monitor the use of funds.
- Test expenditures and related records for authorized use of grant funds and for ineligible activities (7 CFR Part 1775.6).

B. Eligibility

The auditor is not expected to test for eligibility.

C. Matching, Level of Effort, Earmarking

There are no matching, level of effort, and/or earmarking requirements.

D. Reporting Requirements

Compliance Requirements

The following financial or management reports must be periodically submitted to Rural Development for TAT and SWM projects:

- Form RD 442-2, Statement of Budget, Income and Equity (7 CFR Part 1781.21 and 1780.47 (f) (2)).
- Form RD 442-3, Balance Sheet (7 CFR Part 1781.21 and 1780.41(a) (3)).
- The grantee will be reimbursed via Standard Form (SF) 270, Request for Advance or Reimbursement, and will submit quarterly copies of SF-269, Financial Status Report, and a project performance activity report. The final report may serve as the last quarterly report (7 CFR Part 1775.18 and 1775.20).

Suggested Audit Procedures

- Review Forms RD 442-2 and 442-3, and determine that the information presented is in agreement with the borrower's financial records. Grantees may submit other forms that provide similar information.
- The auditor should test the accuracy of the amounts reported on the SF-269, in relation to the grantee's records.

E. Special Tests and Provisions

Compliance Requirement

Section 319 of Public Law (P. L.) 101-121, the Department of Interior and Related Agencies Appropriations Act, prohibits applicants and recipients of Federal contracts, grants and loans from using appropriated funds for lobbying the Federal government in connection with a specific award. Section 319 also requires each individual who requests or receives a Federal contract, grant, loan, or a Federal

commitment to guarantee a loan, to disclose the expenditure of any funds, other than appropriated funds, for lobbying activities.

FmHA Instruction 1940-Q, Restrictions on Lobbying, requires that recipients of assistance exceeding certain financial thresholds provide certifications concerning lobbying activities, and submit disclosure statements if nonappropriated funds have been used for certain purposes.

Suggested Audit Procedure

- The auditor will test for compliance with the provisions of Sec. 319 of P. L. 101-121, by verifying that the required certifications and disclosure statements have been prepared (7 CFR Part 1780.33 (h) (7)).

Attachment 3 Resource Conservation and Development Loans and Watershed Protection and Flood Prevention Loans

CFDA Nos. 10.764 and 10.765

I. Program Objectives

As authorized by the Food and Agriculture Act of 1962, Public Law 87-703, 7 U.S.C. 1011 (Supp. V) 1959-63, 7 U.S.C. 1010, Resource Conservation and Development loans (RC&D) may be made to provide assistance to local sponsoring organizations in authorized areas to develop RC&D measures or projects.

As authorized by the Watershed Protection and Flood Prevention Act, as amended, Section 9, Public Law 83-566, 16 U.S.C. 1006a; Flood Control Act, as amended, Public Law 78-534, Watershed (WS) loans are made to provide assistance to sponsoring local organizations in authorized WS areas to develop a WS work of improvement.

RC&D and WS loans are made to finance the costs that must be paid by local organizations for projects to improve the economy of communities which are based upon conservation, development, and use of natural resources.

II. Program Procedures

Loans are made directly to local governments and not-for-profit organizations for projects developed in RC&D areas and for those under the Small Watershed Protection and Flood Prevention Act or Flood Control Act.

III. Compliance Requirements and Suggested Audit Procedures

A. Types of Services Allowed or Unallowed

Compliance Requirements

Water Programs is authorized to provide RC&D loans to cities, counties, state agencies and local not-for-profit corporations for: (1) rural community public outdoor-oriented water based recreational facilities; (2) soil and water development, conservation, control and use facilities; (3) shift-in-land facilities; (4) community water storage facilities; and (5) special purpose equipment to carry out the above purposes. A loan for a single RC&D measure cannot exceed \$500,000, for a term of up to 30 years.

Water Programs is authorized to provide WS loans to municipal corporations, soil and water conservation districts, or other not-for-profit organizations for: (1) flood prevention; (2) irrigation; (3) drainage; (4) water quality management; (5) sedimentation control; (6) fish and wildlife development; (7) public water based recreation; and (8) water storage and related costs. The total amount of WS loans outstanding in any one watershed cannot exceed \$10,000,000, for a term of up to 50 years.

There are also several limitations on the use of loan funds (7 CFR Part 1781.7).

Rural Development must concur in expenditures before they are made for RC&D and WS funds (7 CFR Part 1781.20).

Suggested Audit Procedures

- Test for authorized use of loan funds and for ineligible loan purposes.
- Determine that the borrower obtained prior concurrence from Rural Development for expenditures.
- Determine whether the borrower's financial management system is designed to ensure the proper use of loan funds.

B. Eligibility

The auditor is not expected to make tests for eligibility.

C. Matching, Level of Effort, Earmarking

Compliance Requirement

There are no matching, level of effort, and/or earmarking requirements, except as detailed in the Letter of Conditions issued by Water and Waste (7 CFR Part 1781.17 (b) (2)).

Suggested Audit Procedures

- Test for compliance with matching, level of effort, and/or earmarking requirements as may be detailed in the Letter of Conditions.

D. Reporting Requirements

Compliance Requirements

The following financial or management reports must be periodically submitted to Rural Development for RC&D and WS projects:

- Annual audited financial statements within 150 days of the entity's fiscal year-end (7 CFR Part 1781.21 and 1780.47 (a)).
- Form RD 442-2, Statement of Budget, Income and Equity (7 CFR Part 1781.21 and 1780.47 (f) (2)).
- Form RD 442-3, Balance Sheet (7 CFR Part 1781.21 and 1780.41(a) (3)).

Suggested Audit Procedures

- Review Forms RD 442-2 and 442-3, and determine that the information presented is in agreement with the borrower's financial records. Borrowers may submit other forms that provide similar information.

E. Special Tests and Provisions

Compliance Requirement

Section 319 of Public Law (P. L.) 101-121, the Department of Interior and Related Agencies Appropriations Act, prohibits applicants and recipients of Federal contracts, grants and loans from using appropriated funds for lobbying the Federal government in connection with a specific award. Section 319 also requires each individual who requests or receives a Federal contract, grant, loan, or a Federal commitment to guarantee a loan, to disclose the expenditure of any funds, other than appropriated funds, for lobbying activities.

FmHA Instruction 1940-Q, Restrictions on Lobbying, requires that recipients of assistance exceeding certain financial thresholds provide certifications concerning lobbying activities, and submit disclosure statements if nonappropriated funds have been used for certain purposes.

Suggested Audit Procedure

- The auditor will test for compliance with the provisions of Sec. 319 of P. L. 101-121, by verifying that the required certifications and disclosure statements have been prepared (7 CFR Part 1780.33 (h) (7)).

Attachment 4 Office of Inspector General (OIG) Addresses

1. OIG - Audit - Northeast Region
5601 Sunnyside Avenue, STOP 5300
Suite 2-2230
Beltsville, Maryland 20705-5300
(301) 504-2100

States Served: Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia, Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Puerto Rico, Rhode Island, Vermont, and Virgin Islands.

2. OIG - Audit - Southeast Region
401 W. Peachtree Street, NW., Room 2328
Atlanta, Georgia 30365-3520
(404) 730-3210

States Served: Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee.

3. OIG - Audit - Midwest Region
 111 N. Canal Street, Suite 1130
 Chicago, Illinois 60606-7295
 (312) 353-1352

States Served: Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin.

4. OIG - Audit - Southwest Region
 101 South Main Street, Room 324
 Temple, Texas 76501
 (254) 743-6565

States Served: Arkansas, Louisiana, New Mexico, Oklahoma, and Texas.

5. OIG - Audit - Great Plains Region
 9435 Holmes Road, Room 233
 Kansas City, Missouri 64131
 (913) 261-7540

States Served: Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, North Dakota, South Dakota, Wyoming, and Utah.

6. OIG - Audit - Western Region
 75 Hawthorne Street, Suite 200
 San Francisco, California 94105-3920
 (415) 744-2851

States Served: Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Territory of Guam, Trust Territories of the Pacific, and Washington.