

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

RUS Bulletin 1780-31

SUBJECT: Water Programs Compliance Supplement for
OMB Circular A-133 Audits

TO: Water and Environmental Programs Staff

EFFECTIVE DATE: Date of Approval

EXPIRATION DATE: One year from the effective date

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/. The compliance supplement contained in RUS Bulletin 1780-31 is also available on OMB's website at: www.whitehouse.gov/OMB/circulars/a133_compliance/01toc.html.

PURPOSE: This compliance supplement is available to assist auditors conducting audits 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

6/01/01
Date

**U. S. Department of Agriculture
Rural Utilities Service**

**Water Programs Compliance Supplement For
OMB Circular A-133 Audits**

RUS Bulletin 1780-31

Fiscal Year 2001

RUS Bulletin 1780-31 includes the Agency's Fiscal Year 2001 compliance supplement for auditors to consult when conducting OMB Circular A-133 audits of Water Programs loans and grants. This compliance supplement may also be found on OMB's website at:

["www.whitehouse.gov/OMB/circulars/a133_compliance/01toc.html"](http://www.whitehouse.gov/OMB/circulars/a133_compliance/01toc.html)

CFDA 10.760 Water and Waste Disposal Systems For Rural Communities

I. Program Objectives

The Water and Waste Program is designed to assist rural communities in obtaining safe drinking water and adequate waste facilities, which are prerequisites for economic growth. In recent years, water and waste systems have been subject to increasingly stringent regulation under the Safe Drinking Water Act and the Clean Water Act. This program is instrumental in providing the financing to build or upgrade rural water and waste facilities.

II. Program Procedures

Under this program, USDA's Rural Utilities Service (RUS) awards direct loans, loan guarantees, and project grants for new and improved water and waste systems serving rural areas where financing is not available from commercial sources at reasonable rates and terms. The Water and Waste Program 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: (1) public body, such as a municipality, district, county, authority, Indian tribe, or other political subdivision of a state, territory or commonwealth; (7 CFR sections 1780.7 (a) (1) and (a)(3)); or (2) an organization operated on a not-for-profit basis, such as a cooperative, association, or private corporation (7 CFR section 1780.7 (a) (2)).

Direct Loans for Water and Waste Disposal Systems

To establish its eligibility for a loan, an applicant must demonstrate to RUS that it cannot finance the proposed project from its own resources or obtain sufficient credit to do so at reasonable terms or rates. In addition, the applicant must have the legal authority to construct, operate and maintain the proposed facility, and for giving security for and repaying the proposed loan (7 CFR section 1780.7). A loan is repayable in not more than 40 years or the useful life of the facility, whichever is less. Interest is charged at a poverty rate, intermediate rate, or market rate depending on the circumstances (7 CFR section 1780.13).

Project Grants for Water and Waste Disposal Systems

RUS makes grants in conjunction with direct loans for water and waste disposal projects servicing the most financially needy communities in order to reduce user costs to a reasonable level. Grant amounts are based on a graduated scale that provides higher amount for projects in communities that have lower income levels; however, a grant amount may never exceed 75 percent of a project's eligible development costs. To establish grant eligibility, an applicant must demonstrate to RUS that it serves a rural area whose median household income (MHI) falls below the statewide nonmetropolitan median household income (NMHI) (7 CFR section 1780.10).

Guaranteed Loans for Water and Waste Disposal Systems

RUS generally guarantees 80 percent loans but may, in extraordinary circumstances, raise the guarantee level not to exceed 90 percent. The interest rate for guaranteed loans is negotiated between the recipient and the lender (7 CFR sections 1980.819 and 1980.823).

Source of Governing Requirements

The program is authorized by Section 306 of the Consolidated Farm and Rural Development Act, as amended (7 U.S.C. 1926). Implementing regulations are 7 CFR Part 1780.

Availability of Other Program Information

RUS maintains a home page on the Internet (<http://www.usda.gov/rus/water/>) which provides general information about this program.

III. Compliance Requirements and Suggested Audit Procedures

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. Loan and grant funds may be expended on eligible project costs, as approved by RUS. 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).
2. Loan and grant funds may not be used for the following (7 CFR section 1780.10):
 - a. Facilities which are not modest in size, design, and cost.
 - b. Loan or grant finders' fees.
 - c. The construction of any new combined storm and sanitary sewer facilities.
 - d. Any portion of the cost of a facility which does not serve a rural area.
 - e. That portion of project costs normally provided by a business or industrial user, such as wastewater pretreatment, etc.
 - f. Rental for the use of equipment or machinery owned by the applicant.
 - g. For other purposes not directly related to operating and maintenance of the facility being installed or improved.
 - h. A judgment which would disqualify an applicant for a loan or grant as provided for in 7 CFR section 1780.7(g).

G. Matching, Level of Effort, Earmarking

Borrowers may be required to provide funds from other sources as specified in the grant agreement and the letter of conditions issued by RUS (7 CFR sections 1780.44 (d) and (f)).

L. Reporting Requirements**1. Financial Reporting**

- a. SF-269, Financial Status Report - Not Applicable
- b. SF-270, Request for Advance or Reimbursement - Not Applicable
- c. SF-271, Outlay Report and Request for Reimbursement for Construction Program - Not Applicable
- d. SF-272, Federal Cash Transactions Report - Not Applicable
- e. Form RD 442-2, Statement of Budget, Income and Equity (OMB No. 0575-0015). This report covers financial operations relating to the borrower's water or waste disposal project.
- f. Form RD 442-3, Balance Sheet (OMB No. 0575-0015). This report presents the financial status of the borrower's water or waste disposal project.

2. Performance Reporting - Not Applicable**3. Special Tests and Provisions – Not Applicable****IV. Other Information**

In years after the program funds are expended and construction is completed, and the only ongoing financial activity of the program is the payment of principal and interest on outstanding balances, the prior loan balances are not considered to have continuing compliance requirements under OMB Circular A-133 section .205(d).

Prior loans which do not have continuing compliance requirements other than to repay the loans are not considered Federal awards expended and therefore are not required to be audited under OMB Circular A-133. However, this does not relieve the non-Federal entity to file financial reports (which are not required to be audited) or otherwise comply with program requirements (e.g., maintaining insurance, depositing funds in federally insured banks, obtaining prior approval for sales of plant).