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Office of Inspector General





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AUDIT  
NUMBER: 34703-0002-KC

TO: John Padalino  
Acting Administrator  
Rural Business - Cooperative Service

ATTN: John Dunsmuir  
Acting Director  
Financial Management Division

FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: The Recovery Act—Rural Development’s Controls Over Rural Business  
Enterprise Grants

Attached is a copy of the final report on the subject audit. Your written response to the official draft report, dated July 24, 2012, is attached, with excerpts from your response and the Office of Inspector General’s position incorporated in the relevant Findings and Recommendations sections of the report.

Based on your response to our official draft report, we accept management decisions for all recommendations in the report. Please follow your agency’s internal procedures in forwarding final action correspondence to the Office of the Chief Financial Officer. In accordance with Departmental Regulation 1720-1, all final actions need to be completed within 1 year of each management decision to preclude them being listed in the Department’s annual Performance and Accountability Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.



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# **Rural Development's Controls Over Rural Business Enterprise Grants**

## **Executive Summary**

Under the Rural Business Enterprise Grant (RBE) program, Rural Development helps fund projects which facilitate the development of small and emerging rural businesses. In 2009, the RBE program received an additional \$20 million in Recovery Act funding. With these funds, Congress, the Office of Management and Budget (OMB), and the Government Accountability Office (GAO) required rigorous internal controls to meet the accountability objectives of the Recovery Act.<sup>1</sup> The Department of Agriculture's (USDA) Office of Inspector General (OIG), as mandated by the Recovery Act, is to oversee agency activities and to ensure that all agencies expend funds in a manner that minimizes the risk of improper use.

As part of our ongoing audit coverage of Recovery Act activities, we assessed the controls for determining eligibility and servicing of 95 Recovery Act-funded RBEs. Our review of grants disclosed that for 47 grants (49 percent), worth over \$5.3 million, Rural Development State and area offices ranked applicants' eligibility<sup>2</sup> without the necessary evidence required to confirm whether projects were eligible because they did not always have time to obtain this required evidence. Additionally, when supporting documents were present, State and area offices did not fully review this documentation when determining rankings, due to Recovery Act time constraints. These rankings were then used by the national office, in part, to determine which applicants would receive RBE program funding. Because selections were made without the necessary evidence to support the projects' ranking, Rural Business-Cooperative Service (RBS) has reduced assurance that all selected projects were eligible for the points they received on the score sheet.

Grant recipients are to submit reports to State or area offices each quarter to inform RBS of projects' financial status and progress. However, we found that State and area offices within each State did not take sufficient steps to obtain financial or performance reports for 47 percent of our sample of Recovery Act RBE projects. This occurred because State or area personnel were either unaware of reporting requirements, or were not aware of procedures to follow to ensure that recipients complied with reporting requirements. In the past, RBS officials acknowledged that some State offices did not take sufficient or appropriate steps to obtain the quarterly performance reports from grant recipients, and agreed to conduct additional training to increase State and area office personnel's awareness of Recovery Act reporting requirements. However, our review disclosed that this training has not been effective because State and area personnel were still not obtaining the required quarterly performance and financial status reports. RBS officials were unaware of the corrective actions available to them to ensure compliance with reporting requirements through the regulations, such as the ability to terminate or suspend the grant, or withhold funds. In addition, not all responsible officials received training on RBE reporting requirements. Several State and area offices claim to have received little to no RBE

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<sup>1</sup> *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, February 18, 2009, and *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, April 3, 2009.

<sup>2</sup> RBS assigns points based on criteria listed in the regulations. With limited RBE funding available, grants with higher points receive funding first.



training, and much of the training that personnel did receive was informal and on-the-job. Financial and quarterly performance reports inform Rural Development and the public of the status of projects intended to help stimulate economic growth, and must be submitted regularly to assist RBS' oversight and monitoring efforts. Without these quarterly reports, there is reduced assurance that grant funds are expended in a timely manner or that projects reach their objectives.

## **Recommendation Summary**

We recommend that RBS ensure that points assessed on the score sheet are supported by the required documentation. We also recommend that the national office ensure that all personnel in charge of overseeing RBEG program projects complete a formal, comprehensive training program that addresses reporting requirements and enforcement actions available to encourage compliance since these apply to both Recovery Act and the regular RBEG programs. In addition, we recommend RBS require State offices receiving Recovery Act RBEG program funds to assess quarterly whether grant recipients are compliant with reporting requirements.

## **Agency Response**

In its July 24, 2012, written response to the official draft report, RBS expressed agreement with all of our findings and recommendations. We have incorporated the RBS response in the Findings and Recommendations section of this report, along with our comments in the applicable OIG position section. RBS' response to the official draft report is included in its entirety at the end of this report.

## **OIG Position**

We concur with the agency's proposed corrective actions and reached management decision on all recommendations in the report.

## Background and Objectives

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### Background

Rural Development's RBEG program provides funding for projects which facilitate the development of small and emerging rural businesses.<sup>3</sup> Projects covered include acquiring or developing land, easements, or right of ways; constructing and renovating buildings, plants, machinery, access streets, parking areas, and utilities; capitalizing funds to establish loans for start-up and working capital; providing training, technical assistance, and distance adult learning for job training and placement; and improving rural transportation. RBS, an agency under Rural Development, is responsible for administering this program.

With the passing of the Recovery Act in 2009, Congress provided \$20 million in funding to the RBEG program to support business development in rural areas. Congress emphasized the need for accountability and transparency in expending these funds. Additionally, OMB and GAO require oversight steps—including internal and program controls—beyond standard practice, and timely reporting of all spending.<sup>4,5,6</sup> On July 28, 2009, Rural Development announced that it approved 145 RBEG program projects, totaling over \$15.3 million in Recovery Act funding.<sup>7</sup> By October 2, 2009, all of the grants had been obligated.

According to Rural Development's Implementation Plan, dated May 1, 2009, Rural Development intended to use Recovery Act funding to ensure that Recovery Act RBEG program funds had both short- and long-term effects on the economy.<sup>8</sup> Guidance issued by the Secretary of Agriculture states that agencies shall develop transparent, merit-based criteria that will guide their discretion in committing, obligating, or expending funds under the Recovery Act.<sup>9</sup> Accordingly, RBEG program funding was contingent upon the grant recipient meeting the conditions of the grant agreement.

RBS officials rank applicants for RBEG program projects by assigning points when applicants' projects meet certain eligibility criteria, such as creating or saving jobs. On average, these points range from 0 to 25 points per criterion. These points are then compiled into an overall score, which will impact the applicant's priority for receiving funding. For Recovery Act-funded RBEGs, the national office awards discretionary points that contribute to the applicant's overall score. To be eligible for the maximum amount of points, applicant projects must be located in a rural area (determined by population), have a history of successfully promoting business development, generate or save jobs, and have a commitment of funds from a non-Federal

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<sup>3</sup> RBEGs may be made to public bodies, private nonprofit corporations, and Federally-recognized Indian Tribal groups in rural areas.

<sup>4</sup> OMB, M-09-15 *Updated Implementing Guidance for ARRA of 2009*, April 3, 2009.

<sup>5</sup> GAO, *Standards for Internal Control in the Federal Government*, November 1999.

<sup>6</sup> OMB, A-123 *Management's Responsibility for Internal Control*, December 21, 2004.

<sup>7</sup> One of these projects was later de-obligated, resulting in a universe of 144 RBEGs for a total of \$15.2 million.

<sup>8</sup> *American Recovery and Reinvestment Act Implementation Plan*, May 1, 2009.

<sup>9</sup> *American Recovery and Reinvestment Act Obligation Clearance Memorandum for Heads of Agencies and Principles Receiving ARRA Funding*, March 23, 2009.



source.<sup>10</sup> Applicants prove their eligibility for points by submitting their own narrative and reliable, outside documentation to support each of these eligibility criteria. Specifically, for Recovery Act-funded RBEGs, RBS officials are required to ensure that points awarded for three criteria—creating or saving jobs, providing matching funding from non-Federal sources, and promoting business development—are supported by outside documentation, which should be kept in the application file.<sup>11</sup>

If applicants are found eligible and are granted RBEG program funding, they sign a letter to certify that they understand their responsibilities—such as reporting requirements. Grant recipients are to report on their project’s progress quarterly by submitting a financial status report to track the project’s expenditures and a project performance activity report, which contains a comparison of actual accomplishments to the project objectives; reasons objectives were not met; problems, delays, or adverse conditions affecting attainment of project objectives; and objectives and timetables established for the next reporting period.<sup>12</sup> Prior to 2010, RBEG recipients used a financial report, the SF-269, *Financial Status Report*. Rural Development has since simplified this report and replaced it with form SF-425, *Federal Financial Report*.<sup>13</sup>

## Objectives

We performed this audit to assess the controls for determining eligibility and servicing of Recovery Act-funded RBEGs at State and area Rural Development offices. As part of this objective, we initially intended to determine if grant recipients met the eligibility requirements claimed on applications, complied with program requirements, and spent funds for authorized purposes. However, because only seven percent of the funds had been disbursed to grant recipients, we could not evaluate if funds were spent for authorized purposes.

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<sup>10</sup> The small business must be in a rural area, which is considered to be any area other than a city or town that has a population greater than 50,000 inhabitants. To be considered a “small” business, it cannot employ more than 50 employees or have more than \$1 million in projected gross revenues.

<sup>11</sup> Administrative Notice No. 4371, *RBEG Program Clarification of Items in Rural Development Instruction 1942-G*, May 15, 2008.

<sup>12</sup> *Rural Development Instruction 1942-G*, attachment 1, paragraph II.J, states that “Forms SF-269, Financial Status Report, and a Project Performance Activity Report will be required of all grantees on a quarterly basis (due 15 working days after end of quarter).”

<sup>13</sup> Rural Development released Administrative Notice No. 4517, which replaced SF-269 with the simpler, electronic form SF-425, in response to the OMB requirement that grant recipients use SF-425 for reporting purposes on or after October 1, 2009. There is no significant substantive change in the form content.

## Section 1: Rural Development Needs to Improve Controls over the RBEG Program

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### Finding 1: RBS Officials Scored RBEG Applications Without Sufficient Documentation

RBS officials rank applicants for RBEG program projects by assigning points when their projects meet certain eligibility criteria. These points are then used to compile an overall score, which will determine the applicant's priority in receiving funding. While RBS officials are required to ensure that points awarded for three criteria—creating or saving jobs, promoting business development, or providing funds from non-Federal sources—are supported by outside documentation, we found that many State and area offices ranked applicants without this necessary evidence.<sup>14</sup> Instead, some RBS personnel independently established their own criteria and processes to rank applicants, due to time constraints. Of the 95 Recovery Act grants that we reviewed, 47 grants (49 percent) worth over \$5.1 million (see Exhibit C) had missing or insufficient documentation necessary to support the applicant's eligibility score. Additionally, when supporting documents were present, State and area offices did not fully review this documentation when determining rankings, due to the time constraints of the Recovery Act. Because selections were made without necessary evidence to support the projects' rankings, RBS has reduced assurance that all selected projects met eligibility requirements.

As part of the decision-making process, State, area, and national offices rank applicants for RBEG program projects using a scoring system in which applicants are awarded up to 25 points, according to their eligibility in certain criteria areas.<sup>15</sup> While all RBEG applicants must meet certain criteria—such as being located in a rural area—other criteria, such as the number of jobs to be saved or created, while not mandatory, help to prioritize which projects would best meet the purposes of the Recovery Act. Projects with higher scores were a higher priority for receiving funding.

Each application's points are tracked on score sheets, which must contain outside documentation that support points awarded to an applicant.<sup>16</sup> Rural Development guidance requires documented support for any points awarded in three criteria areas: number of jobs created or saved, promoting business development, and providing non-Federal funds. These documents must include: (1) a written commitment explaining the number of jobs to be created or saved, submitted by the business to be assisted; (2) written evidence that the startup or expansion funded by the grant will result in small business development, provided by the business to be assisted; and (3) evidence that the non-Federal funds are available and will be used for the

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<sup>14</sup> There are 12 criteria for RBEG applications. These three are the only criteria that require documentation from a third party.

<sup>15</sup> Applicants can include public bodies, private non-profit corporations, and federally recognized Indian Tribal groups that must be located in a rural area with a population of less than 50,000. For the Recovery Act-funded RBEG program, State offices were allowed to request discretionary priority points for each grant applicant, but only the national office had the authority to assign discretionary priority points to deserving projects.

<sup>16</sup> Both Administrative Notice No. 4371, *RBEG Program Clarification of Items in Rural Development Instruction 1942-G*, May 15, 2008, and its replacement, Administrative Notice No. 4450, June 4, 2009, make this requirement.

proposed project, submitted by an authorized representative of the source organization, providing commitment of non-Federal funds.<sup>17</sup> For Recovery Act-funded RBEGs, score sheets were then submitted to the national office. National office personnel were then to consider applications and award discretionary points,<sup>18</sup> documenting their justification for doing so.

We found that some State and area offices awarded points without obtaining the required documents. Overall, 47 of 95 grant applications (49 percent) lacked documentation in three key areas: 32 applications we reviewed did not provide supporting evidence for projected jobs created or saved (34 percent); 24 projects that received points for commitment of non-Federal funds did not provide evidence showing the availability of non-Federal funding (25 percent); and 10 applications did not contain evidence to support claims that small business development would occur by startup or expansion as a result of activities generated by the grant (11 percent).<sup>19</sup>

When we asked RBS personnel how this occurred, they responded that they established their own process for selecting applicants, due to time constraints. One official stated RBS did not obtain supporting documents until grant recipients sign a letter certifying they understand their responsibilities. However, a review of the files showed that the supporting documents were still missing, even though grant recipients had signed letters of conditions. Personnel in 10 offices stated that, rather than following regulations requiring the grant recipient to provide documents from outside sources, they believed it was acceptable to rely on the applicants' grant applications and accompanying narratives to support claims of small business development, the number of jobs created or saved, and proof of non-Federal source of funds. In another State office, officials calculated one job for every \$10,000 requested by the applicant, believing this was a suitable alternative to requiring the applicant to provide a written commitment to provide a particular number of jobs.

Even when supporting documents were submitted, State or area office personnel missed critical information that should have disqualified applicants from receiving points in particular areas. For example, at one area office, a grant applicant provided a certificate of deposit account as evidence of the availability of funds on May 26, 2009. However, based on correspondence that area office personnel submitted to the State office during our review, these funds were already committed to another Rural Development program. Area office personnel should not have awarded points for these funds, as they were not available at the time the application was submitted to the area office.<sup>20</sup> At another State office, a grant applicant proposed that his project would repave a road in a business park, which would result in the expansion or startup of two new businesses in the park and create or save 10 jobs. While the grant applicant submitted a preliminary engineering study of a building to support that the two businesses in question were in the business park, he did not provide any evidence that the grant would create or save

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<sup>17</sup> Rural Development Instruction 1942-G, Attachment 1, August 20, 1992.

<sup>18</sup> In certain cases, when a grant is an initial grant for funding and is not more than \$500,000, Rural Development may assign up to 50 points (discretionary points) in addition to those already assigned. Use of these points must include a written justification, such as geographic distribution of funds.

<sup>19</sup> Some applications were missing supporting documents in more than one critical area and are counted separately for each category.

<sup>20</sup> These funds ended up not being used for the other program, but were still not available until August 2009.

additional jobs or promote this small business development. Despite this, RBS personnel awarded the project maximum points for both of these criteria.

These unsupported score sheets were then used as a basis for national office determinations.<sup>21</sup> Due to time limitations, the national office did not require the Rural Development State offices to follow RBEG application procedures, as outlined in Administrative Notice No. 4450, which requires State office personnel to submit supporting documentation for RBEG applications to the national office for approval.<sup>22, 23</sup>

When we spoke with RBS officials, they explained that, because they only had three months to receive and review Recovery Act RBEG applications, as well as obtain documentation, they were not able to thoroughly review each application and needed to create processes to rank applications without documentation. While we acknowledge the short timeframe of the Recovery Act, we found that RBS personnel also use these processes for non-Recovery Act RBEGs, which do not have the same time constraints. We maintain that it is critical for determinations to be based upon supported evidence of eligibility.

## **Recommendation 1**

Ensure priority points assessed on the score sheets are supported by the required documentation.

## **Agency Response**

In its July 24, 2012, response to the official draft report, RBS stated they will update Administrative Notice (AN) 4598, RD 1942-G, with additional language to indicate that all score sheets must contain supporting documentation for each item where points are awarded. The additional guidance language will specifically address the three subject criteria that require documentation from a third party. This AN will be released on or before September 30, 2012.

## **OIG Position**

We accept management decision for this recommendation.

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<sup>21</sup> Since national office officials stated that their first priority was to fund all persistent poverty areas and these grants were located in persistent poverty areas, we are not recommending that Rural Development call the grant and recover the funds.

<sup>22</sup> State and area offices had three months to review submitted applications. Rural Development announced Recovery Act funds for RBEGs in March 2009 and submission of applications to the Rural Development national office was required by April 2009. State and area offices were given an extension until June 2009.

<sup>23</sup> For non-Recovery Act RBEGs, Administrative Notice No. 4450 states that all case files submitted to the national office for funding consideration must contain copies of supporting documents for each item where points are awarded. Administrative Notice No. 4450 replaced Administrative Notice No. 4371, dated May 15, 2008, which contains the same wording.

## **Finding 2: Rural Development Should Strengthen Oversight of Financial and Performance Reports**

We found that State and area offices did not obtain financial or performance reports for 47 percent of our sample of Recovery Act RBEG projects, as required by Rural Development regulations. This occurred because State or area personnel were either unaware of reporting requirements, or were not aware of procedures to follow to ensure that recipients complied with reporting requirements, due to a lack of adequate training. After an audit OIG performed in 2010,<sup>24</sup> RBS officials acknowledged that some State offices did not take sufficient or appropriate steps to obtain the quarterly performance reports from area offices, and agreed to conduct additional training to increase State and area office personnel's awareness of reporting requirements. Even though RBS trained program directors, RBS did not keep a record of attendees; hence there is no assurance that the loan specialists, who review the files and recipient reports, received this training. Personnel at several State and area offices claim to have received little to no RBEG training, and much of the training that personnel did receive was informal and on-the-job. This training was not effective, as State and area personnel were unaware of the corrective actions available to them when grant recipients did not submit the required reports, such as the ability to terminate or suspend the grant, or withhold funds for noncompliance with reporting requirements. Financial and performance reports inform Rural Development and the public of the status of projects intended to help stimulate economic growth, and are necessary for RBS' oversight and monitoring efforts. Without these reports, there is reduced assurance that grant funds are expended in a timely manner or that projects meet their objectives.

According to Rural Development policy, grant recipients are required to submit quarterly reports to area and State offices, including the financial status report and a project performance activity report, which contains a comparison of actual accomplishments to the project objectives; reasons objectives were not met; problems, delays, or adverse conditions affecting attainment of project objectives; and objectives and timetables established for the next reporting period.<sup>25, 26</sup> Once the project is completed, grant recipients must submit a final performance report within 90 days. As administrators of the RBEG program, RBS personnel are to ensure that documentation is submitted and that grant recipients are reporting regularly. Federal regulation states that agencies may take corrective action, such as withholding funds, if recipients fail to comply with Federal reporting requirements, program objectives, or grant award conditions, and may even terminate or suspend the grant if a recipient fails to do so over two or more funding periods.<sup>27</sup>

We found that the State and area offices did not obtain all quarterly and final performance reports and financial reports. We identified that 45 of the 95 grants (or 47 percent) had not submitted all of their quarterly performance reviews and financial reports, even though these reports were required each quarter after the grants were obligated. Additionally, we found that 29 grant recipients (31 percent) who were identified as having submitted their quarterly reports

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<sup>24</sup> *Controls Over Recovery Act Rural Business Enterprise Grants* (34703-0001-KC, March 31, 2010).

<sup>25</sup> *Rural Development Instruction 1942-G*, Attachment 1, August 20, 1992.

<sup>26</sup> Title 7 Code of Federal Regulations 3016.40 (1), revised January 1, 2003.

<sup>27</sup> Title 7 Code of Federal Regulations 3015.103(a), updated March 8, 2011, and Title 7 Code of Federal Regulations 3015.122, updated March 8, 2011.

had missing information, such as reasons for delays, objectives, and timeframes for the next reporting period, and did not provide a comparison of actual accomplishments to project objectives.

In several instances, reports did not comply with requirements because agency officials were not always familiar with reporting requirements. In one State office, grant recipients had not turned in any financial status or quarterly performance reports. Instead, the loan specialists accepted the reports grant recipients submitted to Recovery.gov because they mistakenly believed that this fulfilled all reporting requirements. However, the Recovery.gov reporting does not fulfill all reporting requirements, such as explaining reasons for any delays, whether projects met their objectives, how funds are being used, or what tasks will be accomplished in the next reporting period. Loan specialists in another State office did not require grant recipients to complete the quarterly reports until they had submitted a request for reimbursement. In another State office, grant recipients submitted multiple quarterly performance reports at the same time, instead of at the end of each specified time period as required.

We found that such discrepancies in quarterly performance reporting were due to a lack of sufficient training received by State and area office specialists. After a prior audit,<sup>28</sup> RBS resolved to train employees on RBEG's quarterly reporting requirements. To meet this goal, RBS provided training to State Office Program Directors through a web-based training and a slide presentation which covered all Rural Development programs briefly. However, we found that this slide presentation and other training methods were insufficient. When we interviewed RBS State personnel, they informed us that the slide presentation only covered general RBEG program information, instead of specific information, such as RBEG's quarterly reporting requirement.<sup>29</sup> Additionally, there is limited assurance that the responsible officials had access to this information. Our review disclosed that this training had not been effective because not all responsible officials received training on RBEG reporting requirements. In eight State offices, personnel stated they received very little to no formal training on the RBEG program. Additionally, while 5 States developed training programs to familiarize personnel with program requirements, the remaining 12 States in our sample provided on-the-job rather than formal training. Because RBS continued to have missing RBEG reports and information after the slide presentation, web-based training, and on-the-job training, we believe RBS needs to emphasize a more structured approach to ensure that all personnel responsible for enforcing RBEG program reporting requirements receive sufficient formalized training.

Additionally, State office personnel have not always taken adequate steps to ensure timely submission of required reports. RBS officials at the State and area offices, due to inadequate training, were unaware of the actions available to them to address noncompliance. When we spoke to several loan specialists, they stated they had no way to compel the grant recipient to submit performance and financial status reports as required. However, Federal regulations allow for a range of corrective actions, including withholding funds, until recipients comply with reporting requirements, or even terminating the grant. Some State offices have taken the

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<sup>28</sup> *Controls Over Recovery Act Rural Business Enterprise Grants* (34703-0001-KC, March 31, 2010).

<sup>29</sup> While some programs can report on a 6-month basis, RBEG requires reports to be submitted quarterly.

initiative and employed methods which, if adopted, could encourage recipient compliance. In four States, RBS sent out reminder letters to grant recipients who did not provide quarterly reports, which improved compliance. One State implemented policies to withhold funds if reports were not timely submitted, or to release funds only after the reports were submitted. Another State we visited has taken action by de-obligating funds on a project that repeatedly failed to submit reports. If all RBS offices were to apply these approaches to RBEG projects, it could increase reporting compliance and help ensure that RBS effectively monitors project progress.

At the time of our audit, RBS had no internal management reporting requirements in place for RBEG projects, such as a report listing noncompliant grant recipients. When we spoke to Rural Development national office officials, they stated that although they knew that timely reporting was a continual problem, they did not believe it was a significant enough issue to revise regulations. To ensure that RBS management is informed and can take appropriate action to remedy noncompliance by grant recipients, State offices receiving RBEG program funds should be required to assess each quarter whether grant recipients in their area are compliant with reporting requirements. In those States where area office personnel are responsible for obtaining the quarterly performance and financial reports, State office personnel are often unaware that the grant recipient has not submitted the required reports. Without the quarterly performance and financial reports, RBS cannot determine the reason for the delays or if grant recipients are taking appropriate steps to carry out RBEG program activities. While RBS has already taken steps to help remedy this issue, based on our review, the problem still persists.

## **Recommendation 2**

Ensure that State and area office personnel administering RBEG programs complete a comprehensive training program on their responsibilities to ensure RBEG recipients comply with reporting requirements and are aware of enforcement actions available to encourage compliance.

## **Agency Response**

RBS stated they reissued the RBEG Servicing AN, AN 4610 (1951-E) Rural Business Enterprise Grant Program Servicing Clarifications, on December 16, 2011. The AN was updated to clarify the monitoring and reporting requirements for the RBEG program. The agency developed *RBEG Servicing – Disbursements and Monitoring Frequently Asked Questions* which were last updated and posted to the agency's SharePoint on June 4, 2012.

The agency conducted two nationwide RBEG servicing training sessions through webinars in FY 2012. All Rural Development field office staff working in the RBEG program were invited to participate. Additionally in FY 2012, the agency conducted 10 regional training sessions for all State Office Program Directors and a limited number of Loan Specialists on grant servicing, disbursement, monitoring, and monitoring receipt of quarterly performance and financial reports. The training webinars and presentations are posted to the agency's SharePoint for use for field staff training. The agency will continue to provide training and guidance on an on-going basis.



### **OIG Position**

We accept management decision for this recommendation.

### **Recommendation 3**

Require State offices receiving RBEG program funds to assess quarterly whether grant recipients in their area are compliant with reporting requirements for the effective reporting period.

### **Agency Response**

RBS stated they will issue an Unnumbered Letter no later than December 31, 2012, requiring State Offices receiving RBEG program funds to assess quarterly whether grant recipients in their service area are compliant with reporting requirements for the effective reporting period.

### **OIG Position**

We accept management decision for this recommendation.

## Scope and Methodology

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We performed fieldwork from February 2010 through November 2011 at the Rural Development national office and 17 State and area offices (see Exhibit A).<sup>30</sup> We have initiated followup work in the next phase of the audit, using our initial grant recipient selection, starting in March 2011. To maximize audit resources, we clustered projects by location. We initially selected a random sample of 43 projects located in 16 State offices. Because the majority of these projects had not expended funds, we then included a judgmental sample, which included all other Recovery Act RBEG files remaining at each location.<sup>31</sup> We also visited Texas because it received the second largest dollar amount for four projects. In all, we reviewed 95 RBEG projects, totaling about \$11.4 million, or 74 percent of the \$15.2 million in RBEG Recovery Act funding obligated as of December 31, 2009.

To accomplish our overall objectives, we tested and assessed the existing controls to determine eligibility and service the Recovery Act-funded RBEGs selected for funding. In developing our findings, we:

- Interviewed national office personnel to determine whether any changes to the RBEG Implementation Plan for Recovery Act grants had been made and what controls were in place to track training for State and area office personnel;
- Reviewed RBEG files at State and area offices to confirm that program controls were in place and functioning as intended to ensure grant recipients met all applicable eligibility and grant reporting requirements;
- Identified and reviewed Rural Development published guidance, instructions, administrative notices, and regulations that detail the controls and procedures over the RBEG program;
- Reviewed 43 randomly selected RBEG projects in 16 State and area offices;
- Reviewed 52 judgmentally selected RBEG projects in 14 State and area offices;
- Obtained and reviewed documents, such as OMB guidance, to gain an understanding of the provisions and requirements related to the Rural Development's RBEG program.

During this audit, we did not review, analyze, or verify information in the agency's Guaranteed Loan System database and make no representation of the adequacy of the system or the information generated by it.<sup>32</sup>

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<sup>30</sup> Delaware and Maryland shared a State Office; therefore, we counted them as one State office.

<sup>31</sup> Delaware, Maine, New Mexico, and South Dakota did not have any additional files beyond the initial sampled grants.

<sup>32</sup> The Guaranteed Loan System is used by RBS to track obligations and monitor use of grant funds. The Guaranteed Loan System allows RBS to generate reports that collect performance data and track the grant recipient's grant status.

We plan to assess grant recipient fund expenditures during the next audit. We will also review disbursements to verify that applicants receiving points for the commitment of non-Federal funds contributed their portion of matching funds.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Abbreviations

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|-----------|---|
| GAO.....  | Government Accountability Office        |
| OIG.....  | Office of Inspector General             |
| OMB.....  | Office of Management and Budget         |
| RBEG..... | Rural Business Enterprise Grants        |
| RBS.....  | Rural Business-Cooperative Service      |
| USDA..... | United States Department of Agriculture |

## Exhibit A: Sample Selections by State

The table below represents the number of projects selected randomly and judgmentally by State, as well as the dollar amounts of all projects reviewed within that State.

| State          | Number of Projects in Sample | Number of Projects Selected Randomly <sup>33</sup> | Number of Projects Selected Judgmentally | Funds Obligated Per State |
|----------------|------------------------------|--|--|---------------------------|
| Delaware       | 1                            | 1  | 0  | \$41,000                  |
| Georgia        | 21                           | 11   | 10                                       | \$1,865,007               |
| Illinois       | 2                            | 1  | 1  | \$178,650                 |
| Iowa           | 5                            | 2  | 3  | \$441,999                 |
| Kentucky       | 3                            | 1  | 2  | \$765,000                 |
| Maine          | 3                            | 3  | 0  | \$378,000                 |
| Maryland       | 3                            | 1  | 2  | \$178,038                 |
| Minnesota      | 8                            | 1  | 7  | \$871,382                 |
| Missouri       | 3                            | 1  | 2  | \$331,350                 |
| Nevada         | 2                            | 1  | 1  | \$108,878                 |
| New Mexico     | 2                            | 2  | 0  | \$977,750                 |
| Ohio           | 3                            | 1  | 2  | \$697,999                 |
| Oklahoma       | 4                            | 3  | 1  | \$886,749                 |
| South Carolina | 8                            | 3  | 5  | \$1,022,361               |
| South Dakota   | 6                            | 6  | 0  | \$425,583                 |
| Tennessee      | 12                           | 1  | 11                                       | \$623,499                 |
| Texas          | 4                            | 0  | 4  | \$1,200,000               |
| Virginia       | 5                            | 4  | 1  | \$436,600                 |
| TOTAL          | 95                           | 43   | 52                                       | \$11,429,845              |

### Random Selection

Projects were placed into geographic clusters. Clusters were weighted by the dollar value of the projects in the cluster, i.e., a probability proportional to size weighting was applied in selecting clusters. All projects in a selected cluster were included in the sample.

### Judgmental Selection

In State offices visited as part of the random sample, all other Recovery projects were also reviewed.

<sup>33</sup> Number shown may include projects in more than one geographic cluster. Cluster inclusion probability was proportional to cluster award total compared to the universe award total.

## **Results**

We are not making any projections from the sample. Because the original random sample was based on probability proportional to size, there was no clear, mathematical way to incorporate the inclusion of the non-random projects. Therefore, we are reporting our actual observations for the 95 projects reviewed.

## Exhibit B: Sample Selections

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Project Sample Selections from the following States:<sup>34</sup>

1. Delaware\*/Maryland
2. Georgia
3. Illinois
4. Iowa
5. Kentucky
6. Maine\*
7. Minnesota
8. Missouri
9. Nevada
10. New Mexico\*
11. Ohio
12. Oklahoma
13. South Carolina
14. South Dakota\*
15. Tennessee
16. Texas<sup>35</sup>
17. Virginia

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<sup>34</sup> States with asterisks did not have any additional files beyond the initial sampled grants; therefore, they do not feature into the judgmental sample.

<sup>35</sup> Judgmental sample only.



## Exhibit C: Grant Applications

The table below represents the projects in each State that did not supply supporting documentation, and the cost of each project. The “X” shows what supporting documentation was missing from each project.

| States         | Projects | Jobs Created/Saved | Non-federal Funds | Small Business Development | Project Cost |
|----------------|----------|--------------------|-------------------|----------------------------|--------------|
| Delaware       | 1        | X                  | X                 | X                          | \$41,000     |
| Georgia        | 2        | X                  | X                 | X                          | \$99,999     |
| Georgia        | 3        | X                  |                   |                            | \$99,999     |
| Georgia        | 4        | X                  |                   | X                          | \$99,999     |
| Georgia        | 5        |                    | X                 |                            | \$99,999     |
| Georgia        | 6        |                    | X                 |                            | \$99,999     |
| Georgia        | 7        | X                  | X                 | X                          | \$50,000     |
| Georgia        | 8        | X                  | X                 |                            | \$99,999     |
| Georgia        | 9        | X                  |                   | X                          | \$99,999     |
| Georgia        | 10       |                    | X                 |                            | \$99,999     |
| Georgia        | 11       | X                  |                   |                            | \$98,525     |
| Georgia        | 12       |                    | X                 |                            | \$98,764     |
| Illinois       | 13       |                    | X                 |                            | \$79,650     |
| Iowa           | 14       |                    | X                 |                            | \$99,999     |
| Iowa           | 15       | X                  |                   |                            | \$94,000     |
| Iowa           | 16       | X                  |                   |                            | \$99,000     |
| Maryland       | 17       | X                  | X                 | X                          | \$52,300     |
| Maryland       | 18       |                    | X                 |                            | \$51,850     |
| Maryland       | 19       | X                  | X                 | X                          | \$73,888     |
| Minnesota      | 20       | X                  | X                 |                            | \$99,999     |
| Minnesota      | 21       |                    | X                 |                            | \$99,000     |
| Minnesota      | 22       | X                  |                   |                            | \$99,900     |
| Missouri       | 23       | X                  |                   |                            | \$99,500     |
| Missouri       | 24       | X                  |                   | X                          | \$211,150    |
| Nevada         | 25       | X                  |                   |                            | \$90,000     |
| Ohio           | 26       | X                  |                   |                            | \$99,000     |
| Ohio           | 27       | X                  |                   |                            | \$99,999     |
| Oklahoma       | 28       |                    | X                 |                            | \$399,999    |
| South Carolina | 29       | X                  |                   |                            | \$99,900     |
| South Carolina | 30       | X                  |                   | X                          | \$250,000    |
| South Dakota   | 31       | X                  |                   |                            | \$94,000     |
| South Dakota   | 32       | X                  |                   |                            | \$22,735     |
| Tennessee      | 33       | X                  |                   |                            | \$8,500      |
| Tennessee      | 34       | X                  | X                 | X                          | \$100,000    |
| Tennessee      | 35       | X                  |                   |                            | \$15,000     |
| Tennessee      | 36       |                    | X                 |                            | \$50,000     |
| Tennessee      | 37       |                    | X                 |                            | \$20,000     |

| States    | Projects | Jobs Created/Saved | Non-federal Funds | Small Business Development | Project Cost |
|-----------|----------|--------------------|-------------------|----------------------------|--------------|
| Tennessee | 38       | X                  |                   |                            | \$10,000     |
| Tennessee | 39       | X                  | X                 |                            | \$95,000     |
| Tennessee | 40       |                    | X                 |                            | \$199,999    |
| Texas     | 41       | X                  |                   |                            | \$300,000    |
| Texas     | 42       | X                  |                   |                            | \$300,000    |
| Texas     | 43       | X                  |                   |                            | \$300,000    |
| Texas     | 44       | X                  |                   |                            | \$300,000    |
| Virginia  | 45       |                    | X                 |                            | \$99,600     |
| Virginia  | 46       |                    | X                 |                            | \$40,000     |
| Virginia  | 47       |                    | X                 |                            | \$99,000     |
| Totals    |          | 32                 | 24                | 10                         | \$5,341,249  |



**USDA'S  
RURAL BUSINESS-COOPERATIVE  
SERVICES'  
RESPONSE TO AUDIT REPORT**





**United States Department of Agriculture  
Rural Development**

July 24, 2012

**SUBJECT:** Official Draft Response - Rural Business-  
Cooperative Service - Rural Business Enterprise  
Grants Stimulus Controls - Phase II  
(Audit No.34703-002-KC)

**TO:** Gil Harden  
Assistant Inspector General  
for Audit

Attached for your review is the response from the Acting Administrator, Rural Business-Cooperative Service concerning Recommendations 1, 2, and 3 in the above subject audit.

This response is being submitted to reach management decision on the three recommendations in final report.

If you have any questions, please contact Arlene Pitter Bell of my staff at 202-692-0083.

/s/ John M. Purcell

JOHN M. PURCELL  
Director  
Financial Management Division

Attachment

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**United States Department of Agriculture  
Rural Development**

July 24, 2012

TO: John Purcell  
Director  
Financial Management Division

SUBJECT: Rural Business Enterprise Grants Recovery Act Controls,  
Audit 34703-0002-KC

This memorandum is to present the Agency's responses to the recommendations of the subject audit.

**Recommendation 1**

Ensure priority points assessed on the score sheets are supported by the required documentation.

**Agency Response to Recommendation 1:**

The Agency concurs with the recommendation.

An updated Administrative Notice (AN) is being prepared to replace the current AN 4598, RD 1942-G, dated September 11, 2011, expiring August 31, 2012, which in part discusses priority scoring.

Additional language will be inserted in the AN in part that will indicate that all score sheets must contain supporting documentation for each item where points are awarded. The additional guidance language will specifically address the three subject criteria that require documentation from a third party.

This AN will be released on or before September 30, 2012.

**Recommendation 2**

Ensure that State and area office personnel administering Rural Business Enterprise Grant (RBEG) programs complete a comprehensive training program on their responsibilities to ensure RBEG recipients comply with reporting requirements and are aware of enforcement actions available to encourage compliance.

**Agency Response to Recommendation 2:**

The Agency concurs with the recommendation. The Agency's view is that it has fulfilled this recommendation subsequent to the time the field work was performed under this audit.

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The Agency has reissued the RBEG Servicing AN, AN 4610 (1951-E) Rural Business Enterprise Grant Program Servicing Clarifications, dated December 16, 2011. The AN was reissued and updated to clarify the monitoring and reporting requirements for the RBEG program.

The Agency conducted two nation-wide RBEG Servicing training sessions through Webinars on February 23, 2012, (The second session was a repeat session of the first session.) All Rural Development field office staff working in the RBEG program were invited to participate. The webinars were recorded and the transcripts and PowerPoint presentations posted to Agency's SharePoint for future reference and access by all field staff.

The Agency conducted 10 regional training sessions in FY 2012. The sessions were attended by all State Office Program Directors and a limited number of Loan Specialists. Training sessions included grant servicing—disbursement, monitoring, and reporting requirements, and the use of the Guaranteed Loan System for tracking and monitoring receipt of quarterly performance and financial reports. The training presentations are posted to the Agency's SharePoint for use for field staff training.

The Agency developed RBEG Servicing—Disbursements and Monitoring Frequently Asked Questions which were last updated and posted to the Agency's SharePoint on June 4, 2012.

The Agency will continue to provide training and guidance on an on-going basis.

### **Recommendation 3**

Require State offices receiving RBEG program funds to assess quarterly whether grant recipients in their area are compliant with reporting requirements for the effective reporting period.

### **Agency Response to Recommendation 3:**

The Agency concurs with the recommendation. The Agency will issue guidance requiring State Offices receiving RBEG program funds to assess quarterly whether grant recipients in their service area are compliant with reporting requirements for the effective reporting period. This guidance will be issued in an Unnumbered Letter no later than December 31, 2012.

If you need further information, please contact Virginia Gilchrist, Oversight Coordination Staff at (202) 690-3805 or via email at [Virginia.Gilchrist@wdc.usda.gov](mailto:Virginia.Gilchrist@wdc.usda.gov).

/s/ John C. Padalino

John C. Padalino  
Acting Administrator  
Rural Business-Cooperative Service

Informational copies of this report have been distributed to:

Government Accountability Office

Office of Management and Budget

Office of the Chief Financial Officer

Attn: Director, OCFO, Planning and Accountability Division

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