



U.S. Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: August 24, 2009

REPLY TO
ATTN OF: 34703-1-KC

TO: Dallas Tonsager
Under Secretary
Rural Development

FROM: Robert W. Young
Assistant Inspector General /s/ Gil Harden for Robert W. Young
for Audit

SUBJECT: Controls over Recovery Act Rural Business Enterprise Grants (1)

The American Recovery and Reinvestment Act of 2009 (Recovery Act) included \$20 million for the Rural Business-Cooperative Service (RBS) to provide grants for rural projects through the Rural Business Enterprise Grant (RBEG) program.¹ Congress, in enacting the Recovery Act, emphasized the need for accountability and transparency in the expenditure of funds. Further, on February 18, 2009, the Office of Management and Budget (OMB) issued initial guidance that required Federal agencies to establish rigorous internal controls, oversight mechanisms, and other approaches to meet the accountability objectives of the Recovery Act.² On July 28, 2009, the Secretary of Agriculture announced \$15.3 million for 145 business development projects in rural areas.

RBS, an agency within the Rural Development mission area, is responsible for distributing Recovery Act RBEG funds through grants and revolving business loans. The revolving loan funds are used to make small loans to new and existing businesses that may not be able to obtain credit from a commercial bank. The RBEG program is designed to assist communities that have suffered from natural disasters, business closures, and general overall loss of community population due to younger generations moving away from the community to find work.

Funds may be used for a wide variety of projects such as business infrastructure and job related training. RBS intends to focus the use of Recovery Act funding to job specific training, businesses that aid in the development of new business ventures (business and industrial parks), and rural revolving loan funds. RBEG projects are approved and serviced by Rural Development State and area offices.

Our role, as mandated by the Recovery Act, is to oversee agency activities and to ensure agencies expend funds in a manner that minimizes the risk of improper use. During this initial phase, we are evaluating compliance activities in relation to overseeing Recovery Act funding

¹ The American Recovery and Reinvestment Act, H.R. 1, was signed into law by President Obama on February 17, 2009.

² *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, April 3, 2009.

requirements. We found that some grant recipients were not submitting quarterly performance reports, while others submitted inadequate ones. Without these reports, Rural Development is unable to detect if grant funds meet the intended goals of the projects or whether grant projects were being completed in a timely manner. This memorandum is one in a series that will report on our oversight activities during the initial phase of this audit. Issues identified in these memoranda will be compiled into a final report at the conclusion of our audit.

To accomplish our overall objectives, we assessed the program's policies and procedures, as well as its internal controls, and discussed them with the agency's national, State, and area officials.³ Agency officials follow existing guidance to process RBEG grants and revolving business loans obligated under the Recovery Act. Rural Development national office officials do not plan on issuing any additional guidance for RBEG Recovery Act funds. We also discussed Rural Development's compliance activities related to the RBEG program with national and State office officials and reviewed Rural Development's American Recovery and Reinvestment Act Implementation Plan (Plan), dated May 1, 2009.

According to the Plan, the Rural Development Business Programs staff will monitor and evaluate program implementation and the approval and expenditure of the Recovery Act funds. The Plan states that Rural Development's existing controls are sufficient to adequately mitigate the risk of waste, fraud, and abuse.

RBS uses Management Control Reviews (MCR) and Business and Cooperative Program Assessment Reviews (BCPAR) as part of its compliance reviews. The MCRs serve as detailed examinations, by the RBEG national office program staff, of State and local grant making and servicing controls for the RBEG program. The BCPAR process is conducted to evaluate the effectiveness of State delivery systems for Business and Cooperative Programs and to ensure compliance with applicable regulations.

As part of our review of RBEG controls, we reviewed the 2006 MCRs, and 2007 and 2008 BCPARs. Both of these reports showed deficiencies with the State office performance of compliance reviews in relation to RBEG reporting requirements. We visited three State offices (New Jersey, Michigan, and Wisconsin) where problems were reported to determine if corrective actions were taken.

We found that these States were still not obtaining the quarterly and/or final performance reports from grant recipients. We reviewed 51 RBEG files and found 20 files that did not contain a quarterly and/or final report. In those instances where grant recipients did submit performance reports, five did not meet all reporting requirements by addressing reasons for delays, work completed as the project progressed, and actual accomplishments at the end of the project. These performance reports are used by RBS to ensure objectives are achieved in a timely manner by the grant recipients.

Rural Development Instruction 1942-G, Attachment 1, dated August 20, 1992, describes the RBEG reporting requirements, which include a quarterly SF-269, "Financial Status Report," a quarterly Project Performance Activity Report, and a Final Performance Report. The reports are to include 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.

³ Rural Development Instruction 1942-G, Attachment 1 (revision 2), dated August 20, 1992, and associated Administrative Notices.

At the New Jersey State office, we were told by the program specialists that grant recipients were not required to submit the quarterly performance reports until after grant funds were disbursed. However, Rural Development Instruction 1942-G, requires quarterly performance reports whether grant funds are disbursed or not. Only one grant recipient had submitted a quarterly report but the report did not meet the reporting requirements. We reviewed the three RBEG recipients that had been approved for grants in New Jersey. Although they had been approved in June 2008, none of the grant recipients had requested a disbursement of grant funds.

At the Michigan State office, seven program specialists interviewed were aware of the need for quarterly performance reports but three of them mistook the SF-269 Financial Status Report for the quarterly report. Thirteen out of twenty-two grant files were missing quarterly performance reports. Of the nine files that contained reports, five were insufficient in that the reports did not meet reporting requirements. At the Wisconsin State office, only four out of twenty-six grant files were missing the quarterly performance reports.

Timely submission of complete quarterly performance reports by RBEG recipients and Rural Development's timely review of these reports is needed to ensure that the goals of the grant are accomplished. The national office also needs to provide additional training on the reporting requirements to ensure program specialists are aware of the differences between the SF-269 and the quarterly performance reports before the Recovery Act funds are disbursed.

When we discussed these issues with Rural Development on August 5, 2009, national office officials acknowledged that some States were not obtaining the quarterly performance reports. Rural Development officials discussed the need for additional training for State and area office personnel regarding the servicing requirements for grant recipients to submit the quarterly performance reports and the possibility of modifying an Administrative Notice to reemphasize the requirements for grant recipients to submit complete quarterly performance reports that address the objectives of the project.

We recommend that the Rural Development national office:

- Provide additional training to the States to clarify and reinforce the quarterly reporting requirements in Rural Development Instruction 1942-G, Attachment 1 (revision 2).

- Develop a formal process for monitoring and ensuring that each State adheres to reporting requirements as specified in 1942-G.

Please provide a written response within 5 days outlining your proposed corrective action for this issue. If you have any questions, please contact me at (202) 720-6945, or have a member of your staff contact Mr. Steve Rickrode, Audit Director, Rural Development and Natural Resources Program, at (202) 690-4483.



United States Department of Agriculture
Rural Development
Office of the Under Secretary

September 2, 2009

TO: Robert W. Young
Assistant Inspector General for Audit

FROM: Dallas Tonsager /s/ signed by Dallas Tonsager
Under Secretary
Rural Development

SUBJECT: Controls for Recovery Act Rural Business Enterprise Grant (1)
Controls for Recovery Act Rural Business Enterprise Grant (2)

This is in response to two Flash Reports received regarding the Rural Business Enterprise Grant (RBEG) program related to controls for funds administered under the American Recovery and Reinvestment Act (ARRA) of 2009. Thank you for the opportunity to respond to the report.

We appreciate the observations that have been made by the Office of the Inspector. These observations are made based on historical performance of three State Offices. The RBEG program is a nationwide program. The Agency makes great efforts to ensure broad geographic distribution of funds. The Rural Business and Cooperative Service (RBS) view the sampling for this Audit as non-representative of the program for two reasons. First, only 3 of 47 offices were sampled. Second, none of the observations are based on ARRA activity.

Specific responses to flash reports (1) and (2) follow.

Flash Report (1): Controls for recovery Act Rural Business Enterprise Grant (1)

Issue 1: Additional Training regarding Quarterly Performance Reports.

The report indicated that the Office of the Inspector General "OIG" found that "some grant recipients were not submitting quarterly performance reports while others submitted inadequate ones. Without these reports, Rural Development is unable to detect if grant funds are meeting the intended goals of the projects or whether grant projects were being completed in a timely manner."

Response: Quarterly performance reports are required under this program and the Agency will continue to stress the need for such reports to be completed properly and in a timely manner.

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The Agency plans to:

- A. Issue an un-numbered letter to re-emphasize the need to ensure reporting is accomplished both in a timely fashion and in accordance with OMB and regulatory requirements.
- B. Discuss RBEG reporting requirements at the Administrator's monthly teleconference.
- C. Schedule separate meetings (via electronic media or telephone) with the Program Director's identified in the report and advise the State Directors of the noted deficiencies.
- D. Conduct a web based training session to review RBEG reporting requirements and to include additional ARRA reporting requirements as they relate to RBEG.
- E. Obtain and review a random sampling of ARRA RBEG project folders to ensure that reporting is effective.

This will provide a broader sampling of that used by the OIG and will be conducted after some ARRA grants are disbursed and projects begun.

Issue 2: Develop a Formal Process for monitoring and ensuring that each State adheres to reporting requirements as specified in 1942-G.

The report indicates that "According to the Plan, the Rural Development Business Programs staff will monitor and evaluate program implementation and the approval and expenditure of the Recovery Act funds. The Plan states that Rural Development's existing controls are sufficient to adequately mitigate the risk of waste, fraud, and abuse. RBS uses Management Control Reviews (MCR) and Business and Cooperative Program Assessment Reviews (BCPAR) as part of its compliance reviews. The MCRs serve as detailed examinations of the RBEG national office program staff and of State and local grant-making and servicing controls for the RBEG program. The BCPAR process is conducted to evaluate the effectiveness of State delivery systems for Business and Cooperative Programs and to ensure compliance with applicable regulations." The report goes on to indicate that these systems of compliance review are what led the OIG to New Jersey, Michigan, and Wisconsin. The reports used by the OIG were from 2006, 2007, and 2008.

Response: Based on the report, the MCR and BCPAR formal processes are working. Therefore, there is no need to develop a formal reporting process in addition to those two processes. There is, however, a need to ensure full follow-up to the reports. OCS indicates that the current risk assessment tools (MCR and BCPAR):

- assist with the enhancement of policies and procedures through better program management and internal controls
- improve training and monitoring by improving program administration and reducing improper actions
- improve analysis and reporting of data, and
- ultimately reduce the Agency's exposure to risk.

The issue here should not be developing another process. However, better follow through and training will address reporting issues. Therefore, RBS suggests following the plan provided in item 1 above and improving follow through using the systems already in place.

Issue Three: The report also indicates that “Without [quarterly] reports, Rural Development is unable to detect if grant funds meet the intended goals of the projects or whether grant projects were being completed in a timely manner.”

Response: In addition to quarterly and final reports, site visits are also required to evaluate compliance, furthermore, grants other than revolving loan funds are accomplished on a reimbursement basis. USDA will review and concur in each loan the grantee is proposing to make until all of the grant funds are expended. Changes in scope are required to include the need to extend the availability of funds. Finally, a project performance report is not required for construction projects in accordance with 1942 G Section 4284.167.

Flash Report (2): Controls for recovery Act Rural Business Enterprise Grant (2)

Issue 1: Assess all RD State and area offices to determine whether adequate documentation is obtained from RBEG recipients to support their requests for reimbursement. Provide additional training to State office staff where insufficient documentation is observed.

The report indicates that “Rural Development needs to provide written procedures for how requests for reimbursements are to be supported by proper documentation and used for their intended purpose.”

Response: Rural Development acknowledges that additional training will assist in meeting the ultimate goal of ensuring proper documentation for each request for advance or reimbursement. To meet that goal, rather than conduct new and separate assessments, RBS will review the BCPAR reports to determine the adequacy of documentation as noted by reviewers. Based on the report indications, RBS will contact those offices that are more deficient than others and pursue training supplemental to that addressed in responses to Flash Report 1, above.

As related to the three states used for this initial phase of the ARRA Audit, each of the states have been contacted to obtain a synopsis of their documentation activities so that RBS can begin to concentrate on those states as needed.

In addition, notification of the need for better documentation was made at the Rural Development policy and training conference by the Specialty Programs Division.

Issue 2: Develop additional guidance to define the type of support necessary for grant-related disbursements.

The report indicates that OMB Circular A-123 and regulation 7 CFR.3015.61(g) are “not specific enough to describe to grantees the documentation needed by Rural Development to determine whether project costs were eligible and whether the objectives of the projects were met. Rural development needs to provide written procedures for how requests for reimbursements are to be supported by proper documentation and used for their intended purposes.”

Response: OMB Circular A-123 is a government-wide guide to appropriate use of grant funding. It is relied upon by scores of agencies other than Rural Development. And, that guidance is not something that Rural Development can change. However, RBS does understand that circular and regulatory language can sometimes be more complicated and less clear than the average grantee may be able to appropriately react to. Rural Development will review these circulars and regulations and compare them to the documentation being currently obtained as evidenced in the BCPAR assessments. In the event we are able to agree that the development of further guidance would be beneficial, and, while any written procedures will stem from Circular A-123, other circulars, and 7 CFR.3015, Rural Development will attempt to ease the language and provide clear examples to assist end users. We will also refer to the already published language in the training suggested in Flash Report 1.

While RBS has provided responses to each of the OIG's recommendations, it is important to note, again, the limitations of the audit sample. Of the State Offices visited:

- Michigan notes that their interpretation of adequate reporting differed from the OIG's interpretation in that the auditors wanted more detail, particularly on the status reports. Michigan is discussing the reporting issue at its next staff meeting and they intend to be in compliance going forward.
- New Jersey reports that it does, indeed, require quarterly reports for RBEG recipients using the Letter of Conditions as well as a series of checklists. And, that office is now establishing a follow-up / tracking system to remind RBEG recipients of their reporting responsibilities.
- Wisconsin reports that of the four files with delinquent reports at the time of the audit, only one is now delinquent. Since the audit visit, two organizations have become delinquent on their reports -- one of which has not yet been disbursed, and both of which have received reminder letters since the audit. They also indicate that further funds will not be disbursed until reports are in order.