



BROADBANDUSA

CONNECTING AMERICA'S COMMUNITIES

Broadband Technology Opportunities Program

Program-Specific Audit Guidelines for the Broadband Technology Opportunities Program (BTOP)

CFDA 11.557

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Prepared for:

National Telecommunications and Information Administration

**Broadband Technology Opportunities Program
1401 Constitution Avenue, NW
Washington, DC 20230**





BROADBANDUSA

CONNECTING AMERICA'S COMMUNITIES

Made Possible by the Broadband Technology Opportunities Program

Funded by the American Recovery and Reinvestment Act of 2009

NOTE:

NTIA updated the Program-Specific Audit Guidelines in May 2012. To learn about the key changes included in this version of the guidelines, please review the Program-Specific Audit Guidelines Changes Guide posted on our website (<http://www2.ntia.doc.gov/compliance#audit>). Audits initiated after May 31, 2012 will follow this version of the Audit Guidelines.





Table of Contents

1	General Guidance	4
1.1	BTOP Overview	4
1.2	Definitions.....	4
1.3	Audit Requirements.....	8
1.4	Objectives.....	9
1.5	Frequency	9
1.6	Engagement Letter.....	10
1.7	Retention of Records.....	10
1.8	Protection of Confidential Information	10
1.9	Criteria	10
2	Requirements	12
2.1	Audit Requirements.....	12
2.2	Reporting Requirements.....	12
2.3	Submission of Reports.....	14
3	Schedule of Funds Sources and Project Costs	15
3.1	Cost Principles.....	15
3.2	Direct vs. Indirect Costs.....	15
3.3	Non-Cash Donations	16
3.4	Improper Payments.....	16
3.5	American Recovery and Reinvestment Act	16
4	Compliance Requirements.....	17
4.1	Activities Allowed	17
4.2	Activities Unallowed	19
4.3	Allowable Costs	21
4.4	Cash Management.....	21
4.5	Davis-Bacon Act	23
4.6	Equipment and Real Property Management.....	25
4.7	Matching.....	27
4.8	Period of Availability of BTOP Award Funds.....	30
4.9	Procurement	31
4.10	Program Income	35
4.11	Reporting.....	37





4.12	Subrecipient Monitoring	43
4.13	Special Tests and Provisions – Nondiscrimination and Interconnection Obligations	47
4.14	Special Tests and Provisions – Duplicate Federal Funding for Broadband Projects	48
Appendix A: Independent Auditor’s Report on the Schedule(s) of Funds Sources and Project Costs		49
Appendix B: Independent Auditor’s Report on Compliance and Internal Control Over Compliance		51
Appendix C-1: Broadband Infrastructure Projects		53
Appendix C-2: Broadband Infrastructure Project – Multi-Year		55
Appendix C-3: SBA/PCC Projects		57
Appendix D: Schedule of Findings and Questioned Costs		59





1 General Guidance

1.1 BTOP Overview

The Broadband Technology Opportunities Program (BTOP) is intended to facilitate the deployment of broadband infrastructure in the United States, enhance broadband capacity at public computer centers, and promote sustainable broadband adoption projects. The expansion of broadband deployment, availability, and adoption funded by BTOP projects is designed to provide communities an opportunity to develop and expand job-creating businesses and institutions, spur technological and infrastructural development, and stimulate long-term economic growth and opportunity.

Section 6001 of the American Recovery and Reinvestment Act of 2009 (ARRA)¹ directed the National Telecommunications and Information Administration (NTIA), within the Department of Commerce (DOC), to establish a grant program to provide access to broadband service to consumers residing in unserved or underserved areas, support community anchor institutions (CAIs) (e.g., schools, libraries, medical and healthcare providers) in expanding broadband access and awareness, assist eligible entities to implement broadband initiatives that spur job creation, stimulate long-term economic growth and opportunity, narrow gaps in broadband deployment and adoption, and support public safety agencies.

BTOP funds were awarded in three categories of eligible projects: (1) Broadband Infrastructure (BI) (known as Comprehensive Community Infrastructure in Round 2); (2) Public Computer Centers (PCC); and (3) Sustainable Broadband Adoption (SBA). NTIA funded BTOP awards through two rounds of funding, and NTIA awarded all three categories of projects during both funding rounds.²

The BI category funds projects that deploy new or improved broadband Internet facilities (e.g., laying new fiber-optic cables or upgrading wireless towers) and connect community anchor institutions such as schools, libraries, hospitals, and public safety facilities. These networks help ensure sustainable community growth and provide the foundation for enhanced household and business broadband Internet services.

The PCC category funds projects that provide broadband access to the general public or a specific vulnerable population group, such as low-income, unemployed, aged, children, minorities, and people with disabilities. PCC projects create, upgrade, or expand public computer centers, including those at community colleges that meet a specific public need for broadband service, including, but not limited to, education, employment, economic development, and enhanced service for healthcare delivery, children, and vulnerable populations.

The SBA category funds innovative projects that promote broadband demand, including projects focused on providing broadband education, awareness, training, access, equipment, or support, particularly among vulnerable population groups where broadband technology has traditionally been underutilized.

Recipients may be subject to different rules depending upon whether they received Round 1 or Round 2 awards.

1.2 Definitions

A

- **AICPA:** American Institute of Certified Public Accountants.
- **ARRA:** American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).
- **ASAP:** Automated Standard Application for Payment system. ASAP is a Department of Treasury system that Recipients must use to draw down their BTOP award funds.
- **Auditee:** Any for-profit entity, including both Recipients and Subrecipients that receive BTOP award funds that must be audited under these Program-Specific Audit Guidelines.

¹ Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

² Information regarding BTOP Notices of Funds Availability (NOFAs) and rules can be found at <http://www2.ntia.doc.gov/rules>.





- **Auditor:** A public accountant who meets the general standards specified in GAGAS.
- **Audit Finding:** Matters which the Auditor is required to report in the schedule of findings and questioned costs (see Section 2.2 and Appendix D of these Program-Specific Audit Guidelines).
- **Award Period:** The three-year time period indicated in the BTOP Award Form CD-450, "Financial Assistance Award," section titled "Award Period." The Award Period will also include, if applicable, any extensions included on BTOP Award Form CD-451, "Amendment to Financial Assistance Award." For a Subrecipient, the Award Period will be the period specified in the terms and conditions of the subaward agreement.
- **Award Year:** Each 12-month period of the BTOP Award Period, beginning with the Award Start Date, constitutes an Award Year.

B

- **BTOP:** Broadband Technology Opportunities Program.
- **BTOP Award:** Financial assistance that non-Federal Recipients receive directly from NTIA under CFDA 11.557. It also includes any funding passed to Subrecipients by a non-Federal Recipient of a BTOP award.

C

- **CCR:** Central Contractor Registration, the primary registrant database for the U.S. Federal Government, located at <https://www.bpn.gov/ccr/default.aspx>. CCR collects, validates, stores, and disseminates data in support of agency acquisition missions.
- **CFDA:** Catalog of Federal Domestic Assistance.
- **CFDA Number:** The number assigned to a Federal program in the CFDA.
- **CFR:** Code of Federal Regulations.
- **Close-out Period:** The 90-day time period after the Project Expiration Date.
- **Corrective Action:** Action taken by the Auditee that:
 - Corrects identified deficiencies;
 - Produces recommended improvements; or
 - Demonstrates that Audit Findings are either invalid or do not warrant Auditee action.

D

- **DOC:** U.S. Department of Commerce.
- **DOC Pre-Award Notification:** DOC Pre-Award Notification Requirements for Grants and Cooperative Agreements, 66 FR 49917 (Feb. 11, 2008).

E

- **EPLS:** Excluded Parties Listing System, maintained by the U.S. General Services Administration.

F

- **FCC:** Federal Communications Commission.
- **FR:** Federal Register.





G

- **GAAP:** Generally Accepted Accounting Principles.
- **GAAS:** Generally Accepted Auditing Standards.
- **GAGAS:** Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States.
- **GAO:** U.S. Government Accountability Office.
- **GMIS:** Grants Management Information System – a system used by NIST to manage grant awards.
- **Grants Office:** Either the NOAA or NIST Grants Office that has the authority to sign BTOP awards and amendments thereto.
- **GOL:** Grants Online – a system used by NOAA to manage grant awards.

M

- **Management Decision:** For the purpose of these Program-Specific Audit Guidelines, the evaluation by the BTOP award Recipient of the Audit Findings and the issuance of a written decision as to what corrective action is necessary.

N

- **NIST:** National Institute of Standards and Technology.
- **NOFA:** Notice of Funds Availability.
- **NOAA:** National Oceanic and Atmospheric Administration.
- **NTIA:** National Telecommunications and Information Administration.

O

- **OIG:** DOC Office of the Inspector General.
- **OMB:** Office of Management and Budget of the Executive Office of the President.

P

- **Pass-Through Entity:** A non-Federal entity that provides a BTOP award to a Subrecipient to carry out a project funded through the BTOP program. Pass-Through Entities include BTOP Recipients and Subrecipients that issue subawards.
- **PCAOB:** Public Company Accounting Oversight Board.
- **PCC:** Public Computer Center.
- **Project Expiration Date:** Final date of the Award Period, including any extensions.

Q

- **Questioned Cost:** A cost that is questioned by the Auditor because of an Audit Finding:
 - Which resulted from a possible violation of a provision of a law, regulation, contract, grant, or other agreement or document governing the use of BTOP funds, including funds used to match BTOP funds;
 - Where the costs, at the time of the audit, may not be supported by adequate documentation; or
 - Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.





R

- **Recipient:** An organization receiving a BTOP award to carry out a BTOP project.
- **Round 1 NOFA:** Notice of Funds Availability for Round 1 of BTOP funding, published at 74 FR 33104 (July 9, 2009), http://www.ntia.doc.gov/fmotices/2009/FR_BBNOFA_090709.pdf. The Round 1 NOFA provides rules applicable to Round 1 Recipients.
- **Round 2 NOFA:** Notice of Funds Availability for Round 2 of BTOP funding, 75 FR 3792 (Jan. 22, 2010), http://www.ntia.doc.gov/fmotices/2010/FR_BTOPNOFA_100115.pdf. The Round 2 NOFA provides rules applicable to Round 2 Recipients. Round 2 also includes a limited reopening of the Round 2 NOFA application window for public safety projects in the 700 MHz band, published at 75 FR 27984 (May 19, 2010), http://www.ntia.doc.gov/fmotices/2010/FR_BTOPApplicationReopening_05132010.pdf.
- **RUS:** Rural Utilities Service of the U.S. Department of Agriculture.

S

- **SAS:** AICPA Statements on Auditing Standards.
- **SBA:** Sustainable Broadband Adoption.
- **Start Date:** The first date indicated in the BTOP award Form CD-450, "Financial Assistance Award," and section titled "Award Period." For example, if the Award Period runs from 9/1/10 to 8/31/13, the Start Date of the BTOP award is 9/1/10.
- **Subrecipient:** An organization receiving a BTOP award to carry out a BTOP project through a Pass-Through Entity.

V

- **Vendor:** A dealer, distributor, merchant, or other seller providing goods or services that are required for the BTOP project.





1.3 Audit Requirements

A BTOP project-specific "Special Award Condition" requires that a for-profit Recipient or a for-profit Subrecipient that receives a BTOP award exceeding \$100,000 have a program-specific audit performed based on the Recipient's BTOP Award Year, beginning with the start date of the award.

Independent auditors should use these Program-Specific Audit Guidelines to perform the required program-specific audits of BTOP for-profit Recipients and BTOP for-profit Subrecipients subject to audit requirements. BTOP Recipients or Subrecipients³ that are required to comply with the Single Audit Act of 1996, including State/Tribal/Local governments, non-profits and universities, should not use these Program-Specific Audit Guidelines. Those Recipients must follow the audit guidelines in the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the OMB Circular A-133 Compliance Supplement.⁴

A Program-Specific Audit for BTOP includes:

- An audit of the Schedule(s) of Funds Sources and Project Costs.
- An opinion on the Auditee's compliance with the terms of the BTOP award(s) and reporting on internal control over compliance.

This Program-Specific Audit Guide applies only to BTOP for-profit Auditees. Non-profit organization, State/tribal/local government, and university Auditees are subject to the Single Audit Act and must follow OMB Circular A-133 and the Circular A-133 Compliance Supplement. These guidelines are not applicable to Rural Utilities Service (RUS) awards.

Recipients may not combine BTOP awards for the purpose of a program-specific audit.

A Recipient must procure an Auditor to perform a program-specific audit of each BTOP award using the guidance in Section 1.5, Frequency, below.

Pursuant to the Inspector General Act of 1978, as amended, 5 USC App., all audits of financial assistance are to be performed in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller

General of the United States. The Auditor should follow generally accepted auditing standards (GAAS) and GAGAS when performing the audit in accordance with these guidelines. The compliance audit is to be performed in accordance with the Statement on Auditing Standards (SAS) 117 – *Compliance Audits*.⁵

These guidelines are not intended to be a complete manual of procedures, nor are they intended to supplant the Auditor's judgment of the work required to meet the audits objectives. These guidelines may not cover all circumstances encountered while performing the program-specific audit, similarly not all procedures will apply to every situation. Auditors must use their professional judgment in determining the work necessary to render the required opinions.

Each Federal assistance program has a number in the Catalog of Federal Domestic Assistance (CFDA) for all Recipients and Subrecipients to reference. The CFDA number for the BTOP Program is 11.557.

³ Under the Single Audit Act of 1996, governmental or non-profit organization Subrecipients that receive a BTOP award from a for-profit entity have their audit performed in accordance with OMB Circular A-133 and not these Program-Specific Audit Guidelines.

⁴ States, local governments, and non-profit organizations receiving BTOP awards either as a Recipient or Subrecipient are subject to the \$500,000 Federal funds threshold established under OMB Circular A-133 and not the \$100,000 threshold in these Program-Specific Audit Guidelines.

⁵ See <http://www.aicpa.org/Research/Standards/AuditAttest/Pages/SSAE.aspx>.





1.4 Objectives

The opinion on the Schedule of Funds Sources and Project Costs and the opinion on the entity's compliance will be used as a tool by program managers and grant officials in meeting their responsibilities for ensuring that BTOP awards are spent for their intended purposes and in accordance with laws and regulations.

1.5 Frequency

A for-profit Recipient or Subrecipient⁶ receiving a BTOP award exceeding \$100,000 in Federal funding shall have a program-specific audit performed, based on the Recipient's BTOP award year, beginning with the start date as defined on the Financial Assistance Award (Form CD-450).

An audit is required **at least once every two years** using the following schedule for audit report submission:

- For BTOP awards less than 24 months – an audit is required within 90 days following the Project Expiration Date (plus the Close-out Period). This audit shall include any costs incurred during the Close-out Period.
- For two- or three-year BTOP awards – an audit is required:
 - Within 90 days after the end of Award Year 1, and
 - Within 90 days following the Project Expiration Date (plus the Close-out Period). This audit shall include any costs incurred during the Close-out Period.

EXAMPLES: AUDIT FREQUENCY REQUIREMENTS	
Company X received three BTOP awards: Award A, Award B, and Subaward C. Company X has a calendar fiscal year.	
Example 1	<p>Company X is a Recipient of BTOP Award A for \$5 million, which has a Start Date of 4/1/2010. Because all direct BTOP awards are given for three-year periods, Award A has an Award Period of 4/1/2010 to 3/31/2013. The Project Expiration Date is 3/31/2013 with a 90-day Close-out Period. The first Program-Specific Audit for Award A will cover the Award Year of 4/1/2010 to 3/31/2011 and will be due on June 30, 2011, which is 90 days after the first Award Year.</p> <ul style="list-style-type: none"> ■ See Example in Appendix C-1 for a single year Schedule of Funds Sources and Project Costs. The final audit for Award A will cover the two Award Years since the first audit and will be due on 9/30/2013, which is 90 days after the 90 day Close-out Period. ■ See Example in Appendix C-2 for a Multi-Year Schedule of Funds Sources and Project Costs.
Example 2	<p>Company X is a Recipient of BTOP Award B for \$2.5 million, which has a start date of 9/1/2010 and a three-year Award Period of 9/1/2010 to 8/31/2013. The first Award Year for Award B is 9/1/2010 to 8/31/2011, so the first Program-Specific Audit for Award B is due on 11/30/2011. In Year 3, Company X receives a six-month no-cost extension until 3/1/2014 to complete its project. (Please note that NTIA does not currently plan to provide such extensions but is providing this example in the event it does in the future). The second audit for Award B will be due on 11/30/2013 and will cover the two Award Years since the first audit (i.e., 9/1/2011 to 8/31/2013). The final audit for Award B will be for the Award Period of 9/1/2013 to 2/28/14 and due on 8/31/2014, which is 90 days after the 90-day Close-out Period for the extended Project Expiration Date.</p>

⁶ Subrecipients are subject to contract flow-down requirements from BTOP Recipients. As a result, for-profit Subrecipients of for-profit Recipients are subject to the \$100,000 threshold of the for-profit audit Special Award Condition. For-profit Subrecipients of non-profits or governmental entities are subject to the \$500,000 threshold in DOC Financial Assistance Standard Terms and Conditions § D.01.b (March 2008).





EXAMPLES: AUDIT FREQUENCY REQUIREMENTS

Example 3

Company X is also a Subrecipient of a BTOP award. Company X receives Subaward C for \$150,000, which has a 16-month Award Period with a Start Date of 1/1/2010. The Project Expiration Date for Subaward C is 4/30/2011 and the Program-Specific audit will cover 1/1/2010 to 4/30/2011. The audit for Subaward C will be due on 10/31/2011, which is 90 days after the 90-day Close-out Period.

1.6 Engagement Letter

A letter of engagement between the BTOP Recipient and the Auditor conducting the program-specific audit shall specifically include a provision stating that the Auditor is required to provide the Secretary of Commerce, the Office of Inspector General, the U.S. Government Accountability Office, or their representatives access to working papers or related documents. Access to working papers includes making necessary photocopies.

1.7 Retention of Records

Generally, a Recipient is required to retain records relating to a particular grant for three (3) years from the date of submission of the final financial report. In cases where litigation, a claim, or an audit is initiated prior to expiration of the three-year period, records must be retained until completion of the action and resolution of any issues associated with it or the end of the three-year retention period, whichever is later. (See 15 CFR §14.53 for specific records retention requirements.) The Auditor should also retain work papers for the same time period.

1.8 Protection of Confidential Information

Certain information obtained in this engagement from BTOP Recipients is exempt from disclosure under the Freedom of Information Act (FOIA). For example, a BTOP Recipient's proprietary business operations and trade secrets and an Auditor's work papers should be exempt from FOIA disclosures. An auditor should mark work papers accordingly when providing those documents to the government.

1.9 Criteria

The Auditor should review the Form CD-450, which stipulates all required award terms and conditions, including the applicable administrative requirements (15 CFR Part 14) and cost principles (48 CFR Part 31.2).

In addition, the Auditor should refer to the following documents:

- DOC Financial Assistance Standard Terms and Conditions, http://www2.ntia.doc.gov/files/award_docs/DOC-STCsMAR08Rev.pdf.
- DOC ARRA Special Award Conditions, http://www2.ntia.doc.gov/files/award_docs/ARRA-DOC-Award-Terms-Final-5-20-09PDF.doc.pdf.
- BTOP Special Award Conditions, available under each project description at <http://www2.ntia.doc.gov/awards>.
- Round 1 NOFA, 74 FR 33104 (July 9, 2009), http://www.ntia.doc.gov/files/ntia/publications/fr_bbnofa_090709.pdf.
- Round 2 NOFA, 75 FR 3792 (Jan. 22, 2010), http://www.ntia.doc.gov/files/ntia/publications/fr_btopnofa_100115_0.pdf.
- Round 2 NOFA Frequently Asked Questions (May 28, 2010), http://www2.ntia.doc.gov/files/nofa2_faqs_5_28_10.pdf.
- 700 MHz Reopening NOFA, 75 FR 27984 (May 19, 2010), http://www.ntia.doc.gov/files/ntia/publications/fr_btopapplicationreopening_05132010.pdf.

For-profit Recipients are subject to the rules in 15 CFR part 14 and the Cost Principles of 48 CFR Part 31.2





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- DOC Pre-Award Notification, 66 FR 49917 (Feb. 11, 2008), http://www2.ntia.doc.gov/files/DOC_pre-award_notification_requirements_73_FR_7696.pdf.
- GAGAS (aka Yellow Book), <http://www.gao.gov/assets/590/587281.pdf>.
- BTOP Recipient Handbook, including fact sheets with specific guidance (e.g., Davis-Bacon, Federal interest), http://www2.ntia.doc.gov/files/Recipient_Handbook_v1.1_122110.pdf.
- Administrative Requirements:
 - 15 CFR Part 14, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations and Commercial Organizations," (DOC's implementation of OMB Circular A-110), http://www2.ntia.doc.gov/files/award_docs/15cfr14.pdf.
- Cost Principles:
 - Federal Acquisition Regulations (FAR) System, Part 31, "Contract Cost Principles and Procedures," https://www.acquisition.gov/far/current/html/Subpart%2031_2.html.

Other program information is available at <http://www2.ntia.doc.gov>.





2 Requirements

These Program-Specific Audit Guidelines will provide specific guidance to the Auditor with respect to internal control, compliance requirements, suggested audit procedures, and audit reporting requirements. The following section outlines auditing and reporting requirements the Auditor must complete.

2.1 Audit Requirements

The Auditee is required to:

- Prepare a Schedule of Funds Sources and Project Costs for each BTOP award for each Award Year. See Section 3, Schedule of Funds Sources and Project Costs.
- Prepare a Schedule of Prior Audit Findings.
- Prepare a Corrective Action Plan for any current Audit Findings.

The Auditor is required to:

- Provide a single opinion covering each Schedule(s) of Funds Sources and Project Costs for the BTOP award for the specified audit period (See Section 1.5, Frequency) in accordance with GAAS, GAGAS, and these Program-Specific Audit Guidelines. A single Schedule of Funds Sources and Project Costs may include multiple years of financial information (see Section 1.5, Frequency). In this case, only one opinion covering multiple periods would be rendered on the Schedule. See Appendix C-2 for an illustrative schedule covering multiple years and Appendix A, Independent Auditor's Report on the Schedule of Funds Sources and Project Costs, for an illustrative auditor's report. An Auditor does not need to perform an audit of an Auditee's financial statements.
- Obtain an understanding of internal control over compliance with requirements applicable to the BTOP award and perform tests of internal control over compliance. A Yellow Book report on internal control over financial reporting, compliance, and other matters is not needed.
- Perform procedures to determine whether the Auditee has complied with laws, regulations, and the provisions of the BTOP award.
- Follow up on prior Audit Findings, perform procedures to assess the reasonableness of the summary schedule of prior Audit Findings prepared by the Auditee, and report, as a current year Audit Finding, when the Auditor concludes that the summary schedule of prior Audit Findings materially misrepresents the status of any prior Audit Finding. The Auditor shall perform audit follow-up procedures in the current year.
- Prepare required reports.

An Auditor does not need to perform an audit of an Auditee's financial statements.

2.2 Reporting Requirements

A reporting package must be prepared and submitted for every audit performed. The reports may be in the form of either combined or separate reports and the reporting package can be organized differently from the order presented below. The reporting package shall include:

- **Audited financial statements of the Auditee.** While these Program-Specific Audit Guidelines do not require Auditors to perform a financial statement audit, it requires Auditees to include the audited financial statements that are completed in the normal course of the Auditee's business in the reporting package. If the Auditee is a subsidiary for which separate financial statements are not available, the Auditee may submit the financial statements of the consolidated group.
- **Schedule of Funds Sources and Project Costs, including footnote disclosures prepared by the Auditee.** Section 3 of these guidelines provides further details on the preparation of the schedule. See also Appendix C.





- **Opinion (or disclaimer of opinion) as to whether the Schedule(s) of Funds Sources and Project Costs of the BTOP award is presented fairly in all material respects in conformity with generally accepted accounting principles or another comprehensive basis of accounting (e.g., cash basis).** The Auditor's opinion should be issued in accordance with the AICPA's Codification of Statement of Auditing Standards, Section 623, Paragraph 22, *Special Purpose Financial Presentation to Comply with Contractual Agreement or Regulatory Provisions*. Appendix A provides an illustrative example. Note that because this schedule presents only activities relating to the BTOP award, the Auditor is not required to provide a separate report to meet the requirements of *Government Auditing Standards* (i.e., because the compliance reporting (in the next bullet) would meet the financial, compliance, and internal control reporting requirements of both *Government Auditing Standards* and these Program-Specific Audit Guidelines).
- **Report on the Auditee's internal control over compliance and an opinion on compliance with direct and material requirements applicable to the program.** The report on internal control over compliance should describe the scope of the testing, the results of the tests, and whether any significant deficiencies or material weaknesses in internal control over compliance were identified in the audit. The report on compliance should include an opinion (or disclaimer of opinion) on whether the Auditee complied with laws, regulations, and the provisions of the grant agreement that could have a direct and material effect on the BTOP award.
- **Schedule of Findings and Questioned Costs.** This schedule will include all significant deficiencies in internal control over compliance; significant deficiencies that are individually or cumulatively material weaknesses; and material noncompliance with provisions of laws, regulations, and requirements of the BTOP award. It will also include all known questioned costs identified through the audit of the Schedule of Funds Sources and Project Costs. Whenever possible, identified findings should be quantified. The schedule should be developed with information necessary to facilitate the audit resolution process (i.e., the size of the universe and corresponding dollar amount, size and dollar amount of the sample, and number and corresponding dollar amount of the instances of noncompliance). Because independent Auditors do not disallow costs, Questioned Costs are identified for possible disallowance by the Department of Commerce. See Appendix D.

Appendices A and B contain an illustrative Auditor's opinion and report on compliance and internal control over compliance.

The following specific information should be included in the Schedule of Findings and Questioned Costs for each finding:

- Information on the BTOP award — the CFDA number, award number, award year, and the name of the Pass-Through Entity (if applicable).
 - A finding number.
 - Criteria – the requirement upon which the Audit Finding is based.
 - Condition – the condition found, including the facts that support the deficiency identified.
 - Questioned Costs – identification of known Questioned Costs and how they were computed.
 - Context – information to provide a proper perspective for judging the consequences of the finding (i.e. does the finding represent an isolated instance or a systematic problem).
 - Cause and Effect – the asserted effect to provide sufficient information to the Auditee and NTIA to permit them to determine the cause and effect in order to facilitate prompt and proper Corrective Action.
 - Recommendation – recommendation to prevent future occurrences of the deficiency.
- **Management Letter.** Auditors should prepare a management letter which communicates in writing violations of provisions of contracts or grant agreements or abuses that have an effect on the Schedule of Funds Sources and Project Costs that is less than material but more than inconsequential. The management letter should not be used in lieu of reporting material Audit Findings in the Schedule of Findings and Questioned Costs.
 - **Corrective Action Plan (if any findings or questioned costs were identified).** The Auditee's management should describe the corrective action taken or planned in response to the findings and questioned costs identified by the Auditor. The Corrective Action Plan should include the finding number(s) that the Auditor assigned to the finding(s), a description of the corrective action taken or planned, and the name and contact number of the responsible official.
 - **Schedule of Prior Audit Findings.** The Auditee's management should prepare the status of corrective actions taken on prior findings resulting from prior BTOP audits, including those performed by the Office of Inspector General. The schedule





should include a summary of the prior year Audit Finding(s), including finding numbers, the condition(s) found, and the current status. The Auditor should perform procedures to assess the reasonableness of the summary schedule of prior Audit Findings prepared by the Auditee and report as a finding in the current year when the Auditor concludes that the summary schedule materially misrepresents the status of any prior Audit Finding.

2.3 Submission of Reports

A Recipient should submit its report package within 90 days after the end of each required reporting period. BI recipients are responsible for submitting a copy of the program-specific audit to the Grants Officer through the Grants Online (GOL) system. PCC and SBA recipients are responsible for submitting an electronic copy of the program-specific audit directly to their Federal Program Officer (FPO). The FPO, through the Program Services Office, will provide then provide a copy of the submitted audit to the Grants Officer. In addition, all recipients are required to submit of copy of the program-specific audit to the Department of Commerce Office of Inspector General at the following address:

**Office of Inspector General
U.S. Department of Commerce
Atlanta Regional Office of Audits
401 West Peachtree Street, N.W., Suite 2742
Atlanta, GA 30308**

A Subrecipient should submit its report package within 90 days after the end of each required audit period to the Pass-Through Entity that issued the subaward.





3 Schedule of Funds Sources and Project Costs

The Schedule of Funds Sources and Project Costs should include:

- The latest approved project budget for the BTOP award for each Award Year⁷ of the period being audited (See Section 1.5, Frequency), as described on Form SF-424A for PCC and SBA projects or Form SF-424C for Broadband Infrastructure projects; and
- The actual funding sources and project costs incurred for each Award Year in the audit period.

A separate schedule should be prepared for each period being audited (see Section 2.1 for an example of this concept). The Recipient should prepare adequate note disclosures to describe the basis of the schedule's presentation and any significant policies used in preparing the schedule. In addition, the notes should include a general description of the organization receiving the BTOP award (*i.e.*, the reporting entity), a project description, and basic award terms, such as the length of the award, the amount of the award, and the Recipient's cost-share. When appropriate, note disclosures should also include related-party transactions, subsequent events, and other significant information to assist the users of the schedule with a comprehensive assessment of the BTOP award.

See Section 1.5, Frequency, for more information about timing of audits and Appendix C-1 for an illustration of a one-year schedule and Appendix C-2 for an illustration covering multiple years.

Refer to the information below on cost principles, monitoring, direct vs. indirect costs, and in-kind contributions for additional information.

3.1 Cost Principles

The cost principles applicable to for-profit Recipients and Subrecipients are stated in the Federal Acquisition Regulations (FAR) Part 31, "Contract Cost Principles and Procedures." These cost principles apply to all BTOP awards received by for-profit entities, regardless of whether such BTOP awards or subawards are received directly from NTIA or indirectly through a Pass-Through Entity. The FAR describes selected cost items, allowable and unallowable costs, and standard methodologies for calculating indirect cost rates. See Section 4.1.2 for specific compliance requirements.

3.2 Direct vs. Indirect Costs

Direct Costs: Direct costs are directly related and traceable to the cost of the project being supported. Direct costs of a BTOP project may be charged to the BTOP award if they are allowable costs under the cost principles and are included within approved budget categories.

Indirect Costs: Indirect costs are the costs incurred by an organization that are not readily identifiable with a particular project or program, but are nevertheless necessary to the operation of the organization and the performance of its programs. The costs of operating and maintaining facilities, depreciation, and administrative salaries are examples of the types of costs that are usually treated as indirect costs. More specifically, indirect costs are usually expressed as a percentage (for example, 10 percent) applied to a base (for example, some subset of total direct costs).

Indirect costs associated with all BTOP project categories are generally allowable if they are included in the approved budget (as a line item) and the Recipient has a Negotiated Indirect Cost Rate Agreement (NICRA) approved by the Federal agency awarding the NICRA, which may not be DOC. However, the recovery of indirect costs associated with Broadband Infrastructure projects is limited. Because operating expenses are not an eligible cost for Broadband Infrastructure projects, indirect costs incurred in implementing these projects must generally be associated with the construction, deployment, or installation of facilities and equipment used to provide broadband services to be considered eligible for recovery with BTOP award funds. As a result, an indirect cost rate that incorporates items that are typically considered to be operating expenses (*e.g.*, office supplies, executive salaries, office rentals) may not be fully allowable for Broadband Infrastructure projects.

⁷ Consistent with Section 1.5, Frequency, BTOP awards of less than 24 months may be reported on a single schedule. See Appendix C-3 for an illustration.





See BTOP Fact Sheet on Indirect Costs at http://www2.ntia.doc.gov/files/Indirect_Costs_071310.pdf.

3.3 Non-Cash Donations

Recipient contributions and third party in-kind contributions are non-cash donations to a project that may count towards satisfying the non-Federal matching requirement of a project. Such contributions must be allowable project expenses and may be accepted as part of a Recipient's cost match when the contributions meet certain criteria as explained below:

- Necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- Cannot be allocated to any other Federally-assisted project or program.
- Allowable under the applicable cost principles.
- Not paid by the Federal government under another award, except where authorized by Federal statute to be used for cost sharing or matching.
- Provided for in the approved budget.
- Conforms to other provisions stated in 15 CFR § 14.23.

Please note that this list is not comprehensive, so it is important to consult the regulations and BTOP award conditions, along with other BTOP guidance regarding non-cash donations to BTOP projects, such as the BTOP Fact Sheet on Recipient and Third Party In-Kind Contributions, http://www2.ntia.doc.gov/files/btop_fact_sheet_matching_contributions_february_2011.pdf.

3.4 Improper Payments

Under OMB guidance, Pub. L. No. 107-300; the Improper Payments Information Act of 2002, as amended by Pub. L. No. 111-204; the Improper Payments Elimination and Recovery Act, Executive Order 13520 on reducing improper payments; and the June 18, 2010 Presidential memorandum to enhance payment accuracy, Federal agencies are required to take actions to prevent improper payments, review BTOP awards for such payments, and, as applicable, reclaim improper payments. Improper payments are:

- Any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements, and includes any payment to an ineligible Recipient; and
- Any payment for an ineligible service, any duplicate payment, any payment for services not received, and any payment that does not account for credit for applicable discounts.

Subrecipients should be alert to improper payments, particularly when testing the following parts of Section III: A, "Activities Allowed or Unallowed"; B, "Allowable Costs/Cost Principles"; E, "Eligibility"; and, in some cases, N, "Special Tests and Provisions."

3.5 American Recovery and Reinvestment Act

ARRA has significant implications for BTOP audits. Auditors should specifically ask Auditees about, and be alert to, Auditees' expenditure of funds provided by ARRA. **ARRA-related information is included in this part in several sections: "Davis-Bacon Act"; "Procurement"; "Reporting"; "Subrecipient Monitoring"; and "Special Tests and Provisions."**





4 Compliance Requirements

In the compliance audit, an Auditor should obtain sufficient, appropriate evidence to form an opinion and report at the level specified by these Program-Specific Audit Guidelines as to whether the BTOP Recipient complied in all material respects with the applicable compliance requirements.

For each of the types of requirements listed in this section, the Auditor shall consider the compliance requirements and related audit objectives. The suggested audit procedures are provided to assist Auditors in planning and performing tests of BTOP Recipients' compliance with the requirements of BTOP awards. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objective and whether additional or alternative audit procedures are needed.

Internal Control. The objectives of internal control pertaining to the compliance requirements for a BTOP award are to ensure the following:

- Transactions are properly recorded and accounted for to:
 - Permit the preparation of reliable financial statements and Federal reports;
 - Maintain accountability over assets; and
 - Demonstrate compliance with laws, regulations, and other compliance requirements.
- Transactions are executed in compliance with:
 - Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a BTOP award;
 - Any other laws and regulations that are identified in the compliance supplements; and
 - Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

These guidelines present examples of controls for each type of compliance requirement. These guidelines do not present a complete list nor is it expected that an entity has all controls included.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control-Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate internal control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements. COSO also has published *Guidance on Monitoring Internal Control Systems* (January 2009), available at www.coso.org/GuidanceonMonitoring.htm.

4.1 Activities Allowed

Auditors must review the appropriate NOFA for the project to determine the eligibility of costs.

4.1.1 Compliance Requirement

The BTOP Round 1 and Round 2 NOFAs (collectively, the NOFAs) specify that BTOP funds may be used to pay for certain allowed activities. In addition, the NOFAs specify that BTOP funds may not be used for certain unallowed activities.





4.1.2 Allowed Activities: Broadband Infrastructure Projects

- Constructing or improving facilities required to provide broadband services
 - Long-term leasing (for terms greater than one year) of facilities required to provide broadband services, including indefeasible rights-of-use (IRU) agreements. Operating lease costs are allowable to the extent that they are incurred during the award period and are consistent with relevant accounting principles; and
 - Indirect costs associated with the construction, deployment, or installation of facilities and equipment used to provide broadband services, provided that they are included as a line item in the Recipient's approved budget (ARRA, Section 6001(g); Round 1 NOFA, Section V.D.2.a; Round 2 NOFA, Section V.E.2.a).
- For 700 MHz Recipients in addition to the above the following activities are allowed:
 - Acquiring broadband radio access network components, such as antennas, base station nodes, transceivers, amplifiers, and remote radio heads;
 - Hardening of existing cell sites, such as installing backup power and enhancing security measures; and
 - Leasing wireline or wireless network infrastructure to facilitate broadband connectivity for a 700 MHz public safety broadband network, including backhaul from cell sites and any associated installation charges paid to a vendor (ARRA, Section 6001(g); 700 MHz Reopening NOFA, Section I.C).

4.1.3 Allowed Activities: All PCC Projects

- Acquiring broadband-related equipment, instrumentation, networking capability, hardware and software, and digital network technology for broadband services, including the purchasing of word processing software, computer peripherals such as mice and printers, computer maintenance services, and virus-protection software;
- Developing and providing training, education, support, and awareness programs or web-based resources, including reasonable compensation for qualified instructors, technicians, managers, and other employees essential for these types of programs;
- Facilitating access to broadband services, including, but not limited to, making public computer centers accessible to the disabled;
- Installing or upgrading broadband facilities on a one-time, capital improvement, basis in order to increase broadband capacity;
- Constructing, acquiring, or leasing a new facility, provided that the Recipient explains why it is necessary to construct, acquire, or lease a new facility to facilitate public access to broadband services or expand computer center capacity; and
- Indirect costs associated with eligible project activities, provided that they are included as a line item in the Recipient's budget (ARRA, Section 6001(g); Round 1 NOFA, Section V.D.3.b; Round 2 NOFA, Section V.E.3.a).

4.1.4 Allowed Activities: All SBA Projects

- Acquiring broadband-related equipment, instrumentation, networking capability, hardware and software, and digital network technology for broadband services;
- Developing and providing training, education, support, and awareness programs, as well as web-based content that is incidental to the program's purposes, including reasonable compensation for qualified instructors for these types of programs;
- Conducting broadband-related public education, outreach, support, and awareness campaigns;
- Implementing programs to facilitate greater access to broadband service, devices, and equipment; and
- Indirect costs associated with eligible project activities, provided that they are included as a line item in the Recipient's budget (ARRA, Section 6001(g); Round 1 NOFA, Section V.D.3.c; Round 2 NOFA, Section V.E.4.a).





4.1.5 Allowed Activities: All BTOP Projects

- Expenses related to undertaking such other projects and activities the Assistant Secretary finds to be consistent with the purposes for which BTOP is established (for example, a BI project may have promotional costs related to promoting the BTOP project to community anchor institutions, and a PCC project may have expenses for inexpensive (e.g. mousepads, t-shirts, pencils) promotional items to promote broadband training programs.); and
- Pre-application expenses, which include expenses related to preparing an application, in an amount not to exceed five percent of the BTOP award, if the expenses are incurred after the publication date of the NOFA, which is July 9, 2009 for Round 1 Recipients, January 22, 2010 for Round 2 Recipients, and May 13, 2010 for Round 2 700 MHz Recipients and for Round 1 Recipients prior to the date on which the application was submitted or for Round 2 Recipients, prior to the date of issuance of the BTOP award from NTIA. Lobbying costs and contingency fees are not reimbursable (ARRA, Section 6001(g); Round 1 NOFA, Section V.D.2.a; Round 2 NOFA, Sections V.E.2.a, V.E.3.a, and V.E.4.a).

4.2 Activities Unallowed

4.2.1 Activities Unallowed: All Broadband Infrastructure Projects

- Operating expenses of the project, including fixed and recurring costs;
- Costs incurred prior to the date on which the application was submitted with the exception of eligible pre-application expenses;
- Acquisition of an affiliate, including the acquisition of the stock of an affiliate;
- Purchasing or leasing any vehicle other than those used primarily in construction or system improvements;
- Merger or consolidation of entities; and
- Acquiring spectrum as part of an FCC auction (e.g., D-Block Auction) or in a secondary market acquisition (Round 1 NOFA, Section V.D.2; Round 2 NOFA, Section V.E.2.b).

4.2.2 Activities Unallowed: All SBA Projects

- Constructing or leasing broadband facilities and infrastructure (Round 1 NOFA, Section V.D.3.d; Round 2 NOFA, Section V.E.4.b).

4.2.3 Activities Unallowed: All BTOP Projects

- Pursuant to Section 1604 of ARRA, none of the funds appropriated or otherwise made available in ARRA may be used by any State or local government, or any private entity, for any casino or other gambling establishment, aquarium, zoo, golf course, or swimming pool.

4.2.4 Suggested Testing Procedures: Internal Control

- Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the BTOP award.
- Plan the testing of internal control to support a low assessed level of control risk for compliance with Activities Allowed and Unallowed and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, assess the control risk at the maximum and consider whether additional compliance tests and reporting are required because of ineffective internal control.
- Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.





4.2.5 Control Objectives

To provide reasonable assurance that BTOP awards are expended only for allowable activities and that the costs of goods and services charged to BTOP awards are allowable and in accordance with the applicable cost principles.

The following are examples of good internal control practices concerning allowable costs and activities:

■ **Control Environment**

- Management sets reasonable budgets for BTOP awards so that no incentive exists to miscode expenditures.
- Management enforces appropriate penalties for misappropriation or misuse of funds.
- There is organization-wide cognizance of need for separate identification of allowable BTOP award costs.
- Management provides personnel approving and pre-auditing expenditures with a list of allowable and unallowable expenditures.

■ **Risk Assessment**

- Process for assessing risks resulting from changes to cost accounting systems.
- Key manager has a sufficient understanding of staff, processes, and controls to identify where unallowable activities or costs could be charged to a BTOP award and not be detected.

■ **Control Activities**

- Accountability provided for charges and costs between BTOP, any other Federal activities, and non-Federal activities.
- Process is in place for timely updating of procedures for changes in activities allowed and cost principles.
- Computations are checked for accuracy.
- Supporting documentation is compared to the list of allowable and unallowable expenditures.
- Adjustments to unallowable costs are made where appropriate and follow-up action is taken to determine the cause.
- There is adequate segregation of duties in review and authorization of costs.
- Accountability for authorization is fixed in an individual who is knowledgeable of the requirements for determining activities allowed and allowable costs.

■ **Information and Communication**

- Reports, such as a comparison of budgeted to actual expenses, are provided to appropriate management for review on a timely basis.
- Internal and external communication channels are established on activities and costs allowed.
- Training programs, both formal and informal, provide knowledge and skills necessary to determine activities and costs allowed.
- Management and staff interact appropriately regarding questionable costs.
- Grant agreements (including referenced BTOP award laws, regulations, handbooks, etc.) and cost principles circulars are available to staff responsible for determining activities allowed and allowable costs under BTOP awards.

■ **Monitoring**

- Management reviews supporting documentation of allowable cost information.
- Information flows efficiently from NTIA to appropriate management personnel.
- Comparisons made with budget and expectations of allowable costs.
- Analytic reviews (e.g., comparison of budget to actual or prior year to current year) and audits are performed.





4.2.6 Suggested Testing Procedures: Compliance

- Identify the types of activities which are either specifically allowed or prohibited by the laws, regulations, and provisions of contract or grant agreements pertaining to the BTOP award.
- When allowability is determined based upon individual transactions, select a sample set of transactions and determine that the transaction was for an allowable activity.
- The Auditor should be alert for large transfers of funds from BTOP award accounts that may have been used to fund unallowable activities.

4.3 Allowable Costs

4.3.1 Compliance Requirements

Auditees may only charge allowable costs to BTOP awards, and are required to adhere to all relevant cost principles when determining the allowability of costs. Guidance regarding cost principles may be found in 15 CFR § 14.27, which states that the allowability of costs incurred by for-profit organizations is determined in accordance with the for-profit cost principles in 48 CFR Part 31 in the FAR.

4.3.2 Suggested Audit Procedures: Internal Control

- Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the BTOP award.
- Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, perform alternative procedures, including assessing the control risk at the maximum and consider whether additional compliance tests and reporting are required because of ineffective internal control.
- Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4.3.3 Suggested Audit Procedures: Compliance

- Select a sample set of costs charged to the BTOP award, and perform procedures to verify that such costs (including indirect costs) were allowable in accordance with the relevant cost principles and, if relevant, the indirect cost rate identified in the terms and conditions of the BTOP award.

4.4 Cash Management

4.4.1 Compliance Requirements

Unless otherwise specified in a special award condition, the method of payment for a BTOP award is generally through advances using the Department of Treasury's Automated Standard Application for Payment (ASAP) system. Under the ASAP system, payments are made through preauthorized electronic fund transfers in accordance with the requirements of the Debt Collection Improvement Act of 1996. Recipients shall limit advances to the minimum amounts necessary to meet immediate disbursement needs, which should not exceed the amount required for a thirty (30) day period. Advanced funds not disbursed in a timely manner and any applicable interest must be promptly returned to DOC.

When advance payment procedures are used, Recipients must establish similar procedures for Subrecipients. Pass-Through Entities must establish reasonable procedures to ensure receipt of reports on cash balances and cash disbursements in sufficient time to enable the Pass-Through Entities to submit complete and accurate cash transactions reports to NTIA or the





higher-tier Pass-Through Entity. Pass-Through Entities must monitor cash drawdowns by their Subrecipients to ensure that Subrecipients conform substantially to the same standards of timing and amount as apply to the Pass-Through Entity.

Some Recipients may not be permitted to draw down funds through the ASAP system until authorized, as specified in a special award condition. Such Recipients must submit a request to seek advances or reimbursements for payment. After the initial request, all subsequent requests must cover expenses incurred. The Recipient may submit a request at most monthly, and must submit a request at least quarterly, on Form SF-270.

Advances of BTOP awards must be maintained in interest bearing accounts. Interest earned on Federal advances deposited in such accounts (with the exception of \$250 per year, which may be retained for administrative expenses) shall be remitted promptly (15 CFR § 14.22).

4.4.2 Suggested Testing Procedures: Internal Control

- Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the BTOP award.
- Plan the testing of internal control to support a low assessed level of control risk for compliance with cash management requirements and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, assess the control risk at the maximum and consider whether additional compliance tests and reporting are required because of ineffective internal control.
- Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4.4.3 Control Objectives

To provide reasonable assurance that: (1) the drawdown of BTOP award funds is only for immediate needs; (2) reimbursement is requested only after costs have been incurred; and (3) the Auditee limits payments to Subrecipients to immediate cash needs.

■ **Control Environment**

- There is an appropriate assignment of responsibility for approval of cash drawdowns, requests for reimbursement, and payments to Subrecipients.
- Budgets for drawdowns are consistent with realistic cash needs.
- Reimbursement is requested only after costs have been incurred.

■ **Risk Assessment**

- Mechanisms exist to anticipate, identify, and react to routine events that affect cash needs.
- Routine assessment of adequacy of cash needs.
- Management has identified BTOP awards that receive cash advances and/or reimbursements and is aware of cash management requirements.

■ **Control Activities**

- Cash flow statements or cash forecasts are prepared to determine essential cash flow needs for each BTOP award.
- The accounting system is capable of scheduling payments for accounts payable and requests for funds from Treasury or, in the case of a Subrecipient, the Pass-Through Entity, to minimize time lapse between draw down of funds and actual disbursements of funds.
- There is an appropriate level of supervisory review of cash management activities and review of cash balances and cash forecasting.
- The Auditee has a written policy that provides:
- Procedures for requesting cash advances as close as is administratively feasible to actual cash outlays and obtaining reimbursement only after costs have been incurred;





- Procedures for monitoring of cash management activities; and
- Procedures for repayment of excess cash and interest earnings where required.

4.4.4 Suggested Testing Procedures: Compliance

- For an Auditee that receives (or received) advances of its grant funds, ascertain the procedures established with NTIA or the Pass-Through Entity to minimize the time between the transfer of BTOP award funds and the disbursement of funds for BTOP award purposes.
- Select a sample of BTOP award fund draws and verify that:
 - Established procedures to minimize the time between drawdown and disbursement were followed.
 - To the extent available, BTOP program income, rebates, refunds, and other income and receipts were disbursed before requesting additional cash payments as required by 15 CFR §14.22(g).
- When BTOP awards are funded on a reimbursement basis, select a sample of reimbursement requests and trace to supporting documentation showing that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request.
- Review records to determine if interest was earned on BTOP award fund draws. If so, review evidence to ascertain whether it was returned according to the rules in 15 CFR §14.22(f) to the Department of Health and Human Services.

4.5 Davis-Bacon Act

4.5.1 Compliance Requirements:

Contractors and subcontractors are required to pay prevailing wages at rates not less than those prevailing on projects of a similar character in the locality as determined by the Secretary of Labor to laborers and mechanics in compliance with the Davis-Bacon Act. Recipients must review the weekly certified payroll documentation they receive from their Subrecipients, contractors, and subcontractors on an ongoing basis. Recipients must maintain, in their files, the original Davis-Bacon Act payroll records they prepare for themselves, as well as those prepared by Subrecipients, contractors, and subcontractors. (40 USC 3141 *et seq.*; ARRA Section 1606; Round 1 NOFA, Section X.G; Round 2 NOFA, Section X.G; 29 CFR §§ 3.3 and 3.4).⁸

Recipients shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR Part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the Subrecipient, contractor, or subcontractor to submit to the Pass-Through Entity or higher-tier contractor weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR §§ 5.5 and 5.6). This reporting is often done using Optional Form WH-347 (OMB No. 1215-0149, available at www.dol.gov/whd/foms/wh347.pdf), which includes the required statement of compliance.

NTIA's Fact Sheet on Davis-Bacon requirements is available at:
http://www2.ntia.doc.gov/files/fact_sheet_davis_bacon_08122010.pdf

4.5.2 Suggested Testing Procedures: Internal Control

- Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the BTOP award.
- Plan the testing of internal control to support a low assessed level of control risk for compliance with the Davis-Bacon Act and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is

⁸ Please note that the Davis-Bacon wage requirement does not apply to BTOP awards in U.S. territories (*i.e.*, Puerto Rico, U.S. Virgin Islands, and Guam).





likely to be ineffective, assess the control risk at the maximum and consider whether additional compliance tests and reporting are required because of ineffective internal control.

- Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4.5.3 Control Objectives

To provide reasonable assurance that contractors and subcontractors were properly notified of the Davis-Bacon Act requirements and the required certified payrolls were submitted to the Pass-Through Entity.

■ **Control Environment**

- Management understands and communicates to staff, contractors, and subcontractors the requirement to pay wages in accordance with the Davis-Bacon Act.
- Management understands its responsibility for monitoring compliance.

■ **Risk Assessment**

- Mechanisms are in place to identify contractors and subcontractors most at risk of non-compliance.
- Management has identified how compliance will be monitored and the related risks of failure to monitor for compliance with the Davis-Bacon Act.

■ **Control Activities**

- Contractors are informed in the procurement documents of the requirements for payment of prevailing wage rates.
- Contractors and subcontractors are required by contract to submit certifications and copies of payrolls.
- Contractors' and subcontractors' payrolls are monitored to ensure certified payrolls are submitted.

■ **Information and Communication**

- Prevailing wage rate payment requirements are appropriately communicated.
- Reports provide sufficient information to determine whether requirements are being met.
- Channels are established for staff to report non-compliance.

■ **Monitoring**

- Management conducts reviews to ensure that contractors and subcontractors are properly notified of the Davis-Bacon Act requirements.
- Management conducts reviews to ensure that certified payrolls are properly received.

4.5.4 Suggested Testing Procedures: Compliance

- Select a sample of construction contracts and subcontracts greater than \$2,000 that are covered by the Davis-Bacon Act and perform the following procedures:
 - Verify that the required prevailing wage rate clauses were included.
 - Verify that the contractor or subcontractor submitted the required certified weekly payrolls.

(Note: Auditors are not expected to determine whether prevailing wage rates were paid.)





4.6 Equipment and Real Property Management

4.6.1 Compliance Requirements

The suggested audit procedures for internal control and compliance may be accomplished using dual-purpose testing.

Under the terms and conditions that govern BTOP awards, Recipients and Subrecipients of awards for construction, including Round 1 and Round 2 Broadband Infrastructure awards and PCC awards involving construction, must execute and record appropriate documentation of NTIA's undivided equitable reversionary interest (the "Federal Interest") in all real or personal property, whether tangible or intangible, that it acquires or improves, in whole or in part, with Federal funds ("BTOP Property"). Recipients and Subrecipients of SBA and PCC awards without construction are not required to do so, although the Federal

Interest nevertheless applies to the BTOP Property under these programs.

The Recipient or Subrecipient shall execute a security interest or other statement of NTIA's interest in real property, including broadband facilities and equipment acquired or improved with Federal funds acceptable to NTIA, which must be perfected and placed on record in accordance with local law. Documentation of the Federal Interest is to be perfected and recorded/filed in accordance with state and/or local law concurrent with or as soon as possible following any purchase, lease, or other acquisition of BTOP Property and, unless otherwise approved in writing by the Grants Officer, not later than the date on which the BTOP financial assistance award is officially closed-out.

During the pendency of the Federal Interest, the Recipient or Subrecipient shall not:

- Sell, lease, transfer, assign, convey, hypothecate, mortgage, or otherwise convey any interest in the BTOP Property without the prior written approval of the Grants Officer.
- Use the BTOP Property for purposes other than the purposes for which the award was made without the prior written approval of the Grants Officer.

Recipients may not sell or lease any portion of award-funded broadband facilities or equipment (e.g., fiber, tower, antennae, switches) during their useful life, except as otherwise approved by NTIA via a waiver. NTIA's useful life schedule is available at http://www2.ntia.doc.gov/files/fact_sheet_useful_life_schedule_082510_v1.pdf. These restrictions are not meant to limit BI Recipients from leasing facilities to another service provider for the provision of broadband services, nor are these restrictions meant to restrict a transfer of control of the Recipient. Specifically, the sale or lease restriction do not apply to BI recipients' provision of indefeasible rights-of-use (IRU) in BTOP-funded fiber optic networks to other broadband service providers for the provision of broadband service (Round 1 NOFA, Sections V.E. and IX.C.2; Round 2 NOFA, Sections V.F.d and IX.C.2, Sale/Lease Special Award Condition for Indefeasible Rights of Use).⁹

Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Suggested Testing Procedures: Internal Control

- Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the BTOP award.
- Plan the testing of internal control to support a low assessed level of control risk for compliance with equipment and real property management requirements and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, assess the control risk at the maximum and consider whether additional compliance tests and reporting are required because of ineffective internal control.
- Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

⁹ IRU Sale/Lease Waiver to be available at <http://www2.ntia.doc.gov/compliance>.





4.6.2 Control Objectives

To provide reasonable assurance that proper records are maintained for equipment acquired with BTOP award funds, equipment is adequately safeguarded and maintained, disposition or encumbrance of any equipment or real property is in accordance with Federal requirements, and the Department of Commerce is appropriately compensated for its share of any property sold or converted to non-Federal use inconsistent with the purpose for which the BTOP award was made.

■ **Control Environment**

- Management is committed to providing proper stewardship for property acquired with BTOP award funds.
- No incentives exist to under-value assets at time of disposition.
- Sufficient accountability exists to discourage misuse of Federal assets and prevent temptation toward such misuse.

■ **Risk Assessment**

- Procedures exist to identify risk of misappropriation or improper disposition of property acquired or improved with BTOP award funds.
- Management understands requirements and operations sufficiently to identify potential areas of noncompliance (*e.g.*, decentralized locations, departments with budget constraints, transfers of assets between departments).

■ **Control Activities**

- Accurate records are maintained on all acquisitions and dispositions of property acquired with BTOP awards.
- Property tags are placed on equipment.
- A physical inventory of equipment is periodically taken and compared to property records.
- Records contain description (including serial number or other identification number), source, identity of title holder, acquisition date and cost, percentage of DOC participation in the cost, location, condition, and disposition data for all BTOP Property.
- Procedures exist to ensure that the DOC is appropriately reimbursed for dispositions of property acquired with BTOP awards and, where applicable, NTIA approval is sought prior to disposition.
- Policies and procedures define responsibilities for recordkeeping and authorities for disposition.
- Procedures in place to ensure Federal Interest in BTOP award-funded property is recorded prior to the Project Expiration Date.

■ **Information and Communication**

- The accounting system provides for separate identification of property acquired wholly or partly with BTOP award funds and with non-Federal funds.
- A channel of communication exists for people to report suspected improprieties in the use or disposition of BTOP funded equipment and property.
- BTOP award managers are provided with applicable requirements and guidelines.

■ **Monitoring**

- Management reviews the results of periodic inventories and follows up on inventory discrepancies.
- Management reviews dispositions of property to ensure appropriate valuation and reimbursement to DOC.





4.6.3 Suggested Testing Procedures: Compliance

■ **Inventory Management of Equipment**

- Inquire whether a required physical inventory of equipment acquired under the BTOP award was taken within the last two years. Test whether any differences between the physical inventory and equipment records were resolved.
- Identify equipment acquired under BTOP awards and trace selected purchases to the property records. Verify that the property records contain the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of DOC participation in the cost, location, condition, and any ultimate disposition data, including the date of disposition and the sales price or method used to determine current fair market value.
- Select a sample from all equipment identified as acquired under the BTOP award from the property records and physically inspect the equipment, including whether the equipment is appropriately safeguarded and maintained.

■ **Disposition of Equipment**

- Identify the Auditee's equipment dispositions for the audit period and perform procedures to verify that dispositions were properly classified between equipment acquired under the BTOP award and equipment otherwise acquired.
- For dispositions of equipment acquired under the BTOP award, perform procedures to verify that the dispositions were properly reflected in the property records and that Recipient sought approval from NTIA for such disposition where applicable.
- For dispositions of equipment acquired under the BTOP award with a current per-unit fair market value of \$5,000 or more, test whether the awarding agency was reimbursed for the appropriate Federal share.

■ **Disposition of Real Property**

- Identify the Auditee's real property dispositions for the audit period and ascertain whether any such real property was acquired with the BTOP award.
- For dispositions of real property acquired under BTOP awards, perform procedures to verify that the Recipient or Subrecipient followed the instructions of NTIA and the Grants Office, which will normally require reimbursement to DOC for the Federal portion of net sales or fair market value at the time of disposition, as applicable and that Auditee sought approval from NTIA for such disposition, where applicable.

4.7 Matching

4.7.1 Compliance Requirements

Recipients or Subrecipients must provide, from non-Federal sources, not less than 20 percent of the total allowable project cost, unless the Assistant Secretary grants a waiver allowing a lesser percentage. Recipients' award documents and approved budgets contain the specific percentage of non-Federal matching funds that they must provide to the project. Recipient contributions, Subrecipient contributions, and third party in-kind contributions may count toward satisfying the non-Federal matching requirement and must be consistent with the requirements in 15 CFR § 14.23.

The following is a list of the basic criteria for acceptable matching funds:

- Are verifiable from the Recipient's records.
- Are not included as contributions for any other Federally-assisted project or program, unless specifically allowed by Federal program laws and regulations.





Please note that testing under Matching should only be performed for Recipients.

- Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- Are allowed under the applicable cost principles.
- Are not paid by the Federal Government under another award, except where authorized by Federal statute to be allowable for cost sharing or matching.
- Are provided for in the approved budget when required by the Federal awarding agency.
- Conform to other applicable provisions of 15 CFR § 14.23 and the laws, regulations, and provisions of contract or grant agreements applicable to the project.

The non-Federal share, whether cash or in-kind, is expected to be paid out at the same general rate as the Federal share, unless the Grants Office has approved a waiver of this requirement (e.g., through an award amendment on Form CD-451). (See ARRA, Section 6001(f); Round 1 NOFA, Section V.C.4.b; Round 2 NOFA, Section V.C.1).

4.7.2 Suggested Testing Procedures: Internal Control

- Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the BTOP award.
- Plan the testing of internal control to support a low assessed level of control risk for compliance with matching requirements and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, assess the control risk at the maximum and consider whether additional compliance tests and reporting are required because of ineffective internal control.
- Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4.7.3 Control Objectives

To provide reasonable assurance that the matching share requirement is met using only allowable funds or costs which are properly calculated and valued.

- Control Environment
 - Management has committed to meet matching requirements (e.g., adequate budget resources to meet a specified matching requirement).
 - The budgeting process addresses/provides adequate resources to meet matching goals.
 - Official written policy exists outlining:
 - Responsibilities for determining required amounts or limits for matching;
 - Methods of valuing matching requirements, e.g., "in-kind" contributions of property and services, calculations of levels of effort;
 - Allowable costs that may be claimed for matching;
 - Methods of accounting for and documenting amounts used to calculate amounts claimed for matching; and
 - Assuring matching requirements are met during the period of availability.

**Testing under Matching
should only be performed
for Recipients.**





■ Risk Assessment

- The Recipient has identified areas where estimated values will be used for matching and appropriate valuation mechanisms.
- Management has sufficient understanding of the accounting system to identify potential recording problems.

■ Control Activities

- The Recipient has performed procedures, including obtaining evidence such as a certification from the donor, to identify whether matching contributions:
 - Are from non-Federal sources;
 - Involve Federal funding, directly or indirectly; and
 - Were used for another Federally-assisted program.
- There is an adequate review of monthly cost reports and adjusting entries.
- The Recipient has adequate reconciliations and approvals for the release of matching contributions at least in proportion to BTOP funding, unless the Recipient has received a waiver of the proportionality requirement.

Generally, matching contributions must be from a non-Federal source and may not involve BTOP award funding, other Federal funding or be used for another Federally-assisted program.

■ Information and Communication

- The Recipient has an accounting system capable of:
- Separately accounting for data used to support matching, level of effort, or earmarking amounts or limits or calculations;
- Ensuring that expenditures or expenses, refunds, and cash receipts or revenues are properly classified and recorded only once as to their effect on matching, level of effort, or earmarking; and
- Documenting the value of "in-kind" contributions of property or services, including: (1) Basis for local labor market rates for valuing volunteer services; (2) Payroll records or confirmation from other organizations for services provided by their employees; and (3) Quotes, published prices, or independent appraisals used as the basis for donated equipment, supplies, land, buildings, or use of space.

■ Monitoring

- Supervisory review of matching activities is performed to assess the accuracy and allowability of transactions and determinations, e.g., at the time reports on BTOP awards are prepared.
- Matching contributions are reconciled to the approved BTOP budget.
- The Recipient monitors Subrecipient valuation of matching contributions.

4.7.4 Suggested Testing Procedures: Compliance

- Perform tests to verify that the required matching contributions were met.
- Ascertain the sources of matching contributions and perform tests to verify that they were from an allowable source.
- Test records to corroborate that the values placed on in-kind contributions (including third party in-kind contributions) are in accordance with the cost principles, 15 CFR Part 14, and the terms of the BTOP award.
- Test transactions associated with matching contributions for compliance with the allowable costs/cost principles requirements. This test may be performed in conjunction with the testing of the requirements related to allowable costs/cost principles.





4.8 Period of Availability of BTOP Award Funds

4.8.1 Compliance Requirements

Recipients must substantially complete their projects no later than two years, and projects must be fully completed no later than three years, following the date of the issuance of the award (Round 1 NOFA, Sections IV.B.6 and V.C1.b; Round 2 NOFA, Section IV.F).

4.8.2 Suggested Testing Procedures: Internal Controls

- Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the BTOP award.
- Plan the testing of internal control to support a low assessed level of control risk for compliance with the period of availability and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, assess the control risk at the maximum and consider whether additional compliance tests and reporting are required because of ineffective internal control.
- Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4.8.3 Control Objectives

To provide reasonable assurance that BTOP award funds are used only during the authorized period of availability.

■ **Control Environment**

- Management understands and is committed to complying with period of availability requirements.
- The Auditee's operations are such that it is unlikely there will be BTOP award funds remaining at the end of the period of availability.

■ **Risk Assessment**

- The budgetary process considers the period of availability of BTOP award funds as to both obligation and disbursement.
- Management identifies and communicates period of availability cut-off requirements as to both obligation and disbursement.

■ **Control Activities**

- Accounting system prevents obligation or expenditure of BTOP award funds outside of the period of availability.
- Disbursements are reviewed by a person knowledgeable of period of availability of funds.
- End of grant period cut-offs are met by such mechanisms as advising BTOP award managers of impending cut-off dates and review of expenditures just before and after cut-off date.
- Unliquidated commitments are cancelled at the end of the period of availability.

■ **Information and Communication**

- There is timely communication of period of availability requirements and expenditure deadlines to individuals responsible for BTOP award expenditures, including automated notifications of pending deadlines.
- There is periodic reporting of unliquidated balances to appropriate levels of management and follow up.





■ **Monitoring**

- There is periodic review of expenditures before and after cut-off date to ensure compliance with period of availability requirements.
- Management reviews reports showing budget and actual expenditures for period.

4.8.4 Suggested Testing Procedures: Compliance

- Review the BTOP award documents and regulations pertaining to the BTOP award and determine any award-specific requirements related to the period of availability and document the availability period.
- Test transactions charged to the BTOP award after the end of the period of availability to verify that—
 - Underlying obligations occurred within the period of availability, and
 - Liquidation (payment) was made within the allowed time period.
- Test transactions that were recorded during the period of availability and verify that the underlying obligations occurred within the period of availability.
- Test adjustments (*i.e.*, manual journal entries) to the BTOP award funds and verify that these adjustments were for transactions that occurred during the period of availability.

As long as the Auditor obtains sufficient, appropriate evidence to meet the period of availability audit objectives, the Auditor may test period of availability compliance using the same test items used to test other types of compliance requirements (*e.g.*, activities allowed or unallowed or allowable costs/cost principles). However, if this approach is used, the Auditor should exercise care in designing the sample to ensure that sample items are suitable for testing the stated objectives of compliance requirements covered by the sample.

4.9 Procurement

4.9.1 Compliance Requirements:

All Recipients shall follow Federal laws and implementing regulations applicable to procurements, as noted in 15 CFR § 14. (DOC Pre-Award Notification ¶ B.16; 15 CFR §§ 1440-48).

Section 1605 of ARRA prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. ARRA provides for waiver of these requirements under specified circumstances. An award term is required in all ARRA-funded awards for construction, alteration, maintenance, or repair of a public building or public work (2 CFR § 176.140). Further information about this requirement, including applicable definitions, is found in 2 CFR Part 176, Subpart B.

Please note that the Department of Commerce issued a limited waiver of the ARRA Buy American requirement for certain broadband equipment used in BTOP projects. The waiver is available at 74 FR 31410 (July 1, 2009), <http://www2.ntia.doc.gov/files/BroadbandBuyAmericaNotice7-1-09.pdf>.

4.9.2 Suggested Testing Procedures: Internal Control

- Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the BTOP award.
- Plan the testing of internal control to support a low assessed level of control risk for compliance with procurement requirements and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, assess the control risk at the maximum and consider whether additional compliance tests and reporting are required because of ineffective internal control.





- Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4.9.3 Control Objectives

To provide reasonable assurance that procurement of goods and services are made in compliance with the provisions of 15 CFR Part 14, and Buy American provisions under 2 CFR 176 as applicable, and that covered transactions (as defined in the suspension and debarment common rule) are not made with a debarred or suspended party.

■ **Control Environment**

- The Auditee has created and implemented codes of conduct and other policies regarding acceptable practices, conflicts-of-interest, and expected standards of ethical and moral behavior for making procurements.
- The Auditee has a procurement manual that incorporates Federal requirements.
- There is an absence of pressure to meet unrealistic procurement performance targets.
- Management prohibits intervention or overriding established procurement controls.
- Board or governing body oversight is required for high dollar, lengthy, or otherwise sensitive procurement contracts.
- Key procurement managers possess adequate knowledge and experience in light of their responsibilities for procurements for BTOP awards.
- Authority is clearly assigned for issuing purchasing orders and contracting for goods and services.

■ **Risk Assessment**

- Procedures exist to identify risks arising from vendor inadequacy (e.g., quality of goods and services, delivery schedules, warranty assurances, user support).
- Procedures are established to identify risks arising from conflicts of interest, e.g., kickbacks, related party transactions, bribery.
- Management understands the requirements for procurement and suspension and debarment, and, given the organization's staff, departments, and processes, has identified where noncompliance could likely occur.
- Conflict-of-interest statements are maintained for individuals with responsibility for procurement of goods or services.

■ **Control Activities**

- Job descriptions (or other means) define tasks that comprise particular procurement jobs.
- Each contractor's performance with the terms, conditions, and specifications of the contract is monitored and documented.
- Procedures establish segregation of duties between employees responsible for contracting and accounts payable and cash disbursing.
- Procurement actions are appropriately documented in the procurement files.
- Supervisors review procurement and contracting decisions for compliance with Federal procurement policies.
- Procedures are established to verify that vendors providing goods and services under the award have not been suspended or debarred by the Federal Government.
- The Auditee has an official written policy for procurement and contracts establishing:
 - Contract files that document significant procurement history;
 - Methods of procurement authorized, including selection of contract type, contractor selection or rejection, and the basis of contract price;
 - Verification that procurements provide full and open competition;





- Requirements for cost or price analysis, including for contract modifications;
- Obtaining and reacting to suspension and debarment certifications; and
- Compliance with other applicable requirements for procurements under BTOP awards.
- The Auditee has an official written policy for suspension and debarment that:
 - Contains or references the Federal requirements;
 - Prohibits the award of a subaward, covered contract, or any other covered agreement for BTOP award administration, goods, services, or any other BTOP award purpose with any suspended or debarred party; and
 - Requires staff to determine that Subrecipients receiving subawards of any value and procurement contracts equal to or exceeding \$25,000 and their principals are not suspended or debarred, and specifies the means that will be used to make that determination, *i.e.*, checking the Excluded Parties Listing System (EPLS), which is maintained by the General Services Administration; obtaining a certification; or inserting a clause in the agreement.

■ **Information and Communication**

- A system is in place to assure that procurement documentation is retained for the time period required by 15 CFR § 14.53, award agreements, contracts, and BTOP award regulations. Documentation includes:
 - The basis for contractor selection;
 - Justification for lack of competition when competitive bids or offers are not obtained; and
 - The basis for award cost or price.
- Employees' procurement duties and control responsibilities are effectively communicated.
- Procurement staff is provided a current hard-copy of the EPLS or have on-line access. Channels of communication are provided for people to report suspected procurement and contracting improprieties.

■ **Monitoring**

- Management periodically conducts independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended.

4.9.4 Suggested Testing Procedures: Compliance

- Obtain Auditee's procurement policies. Verify that the policies comply with applicable Federal requirements (15 CFR §§ 14.40-48; ARRA, Section 1605).
- Examine procurement policies and procedures and verify the following:
 - Written selection procedures require that solicitations incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured, identify all requirements that the offerors must fulfill, and include all other factors to be used in evaluating bids or proposals (15 CFR § 14.44(a)(3)).
 - There is a written policy pertaining to ethical conduct (15 CFR § 14.42).
- Select a sample of procurements and perform the following:
 - Examine contract files and verify that they document the significant history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis of contract price (15 CFR § 14.46).
 - Verify that procurements provide full and open competition (15 CFR § 14.43).
 - Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain whether the limitation was justified (15 CFR §§ 14.43 and 14.44(e)).





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- Verify that contract files exist and ascertain whether appropriate cost or price analysis was performed in connection with procurement actions, including contract modifications, and that this analysis supported the procurement action (15 CFR § 14.45).





- Verify that NTIA and the Grants Office approved procurements exceeding \$100,000 when such approval was required. Procurements: (1) awarded by noncompetitive negotiation; (2) awarded when only a single bid or offer was received; (3) awarded to other than the apparent low bidder; or (4) specifying a “brand name” product (15 CFR § 14.44(e)) may require prior NTIA and Grants Office approval.
- Verify that the appropriate lobbying restrictions were included in the application or bid terms of 15 CFR Part 28.
- Verify compliance with other procurement requirements specific to an award.
- Select a sample of procurements and subawards and—
 - Test whether the Auditee performed a verification check for covered transactions, by checking the EPLS, collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity; and
 - Test the sample of procurements and subawards against the EPLS and ascertain whether covered transactions were awarded to suspended or debarred parties.

4.10 Program Income

4.10.1 Compliance Requirement

Program income is gross income received that is directly generated by the BTOP award-funded project during the award period. Costs incident to the generation of program income may be deducted from gross income to determine program income, provided these costs have not been charged to the award. Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds. Except as otherwise provided in the DOC regulations or terms and conditions of the award, program income does **not** include interest on BTOP award funds (covered under “Cash Management”), rebates, credits, discounts, refunds, etc. (covered under “Allowable Costs/Cost Principles”), or interest earned on any of them (covered under “Cash Management”). Program income also does not include the proceeds from the sale of equipment or real property (covered under “Equipment and Real Property Management”). Recipients’ BTOP projects that generate program income during the award period shall spend such income in the manner discussed below.

- Recipients must add program income to the award to further eligible project objectives, including (a) reinvestment in project facilities; (b) funding BTOP compliance costs; and (c) paying operating expenses of the PCC or SBA project; or

Recipients must use program income to finance the non-Federal share of the project (Round 1 NOFA, Section V.E; Round 2 NOFA, Section V.F; 15 CFR § 14.24, Program Income Special Award Condition (applying to Round 2 provision to Round 1 awards)).

4.10.2 Suggested Testing Procedures: Internal Control

- Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the BTOP award.
- Plan the testing of internal control to support a low assessed level of control risk for compliance with program income requirements and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, assess the control risk at the maximum and consider whether additional compliance tests and reporting are required because of ineffective internal control.
- Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.





4.10.3 Control Objectives

To provide reasonable assurance that program income is correctly earned, recorded, and used in accordance with BTOP award requirements.

■ **Control Environment**

- Management recognizes its responsibilities for program income.
- Management prohibits intervention or overriding controls over program income.
- Performance targets for the generation of program income are realistic.

■ **Risk Assessment**

- Mechanisms are in place to identify the risk of unrecorded or miscoded program income.
- Variances between expected and actual income are analyzed.

■ **Control Activities**

- Pricing and collection policies and procedures are clearly communicated to personnel responsible for program income.
- Mechanisms are in place to ensure that program income is properly recorded as earned and deposited in the bank as collected.
- Policies and procedures provide for correct use of program income in accordance with BTOP award requirements.

■ **Information and Communication**

- Information systems identify program income collection and usage separately from the organization's day-to-day operational transactions
- A channel of communication exists for people to report suspected improprieties in the collection or use of program income.

■ **Monitoring**

- An internal audit of program income is conducted.
- Management compares program income to budget and investigates significant differences.

4.10.4 Suggested Testing Procedures: Compliance

■ **Identify Program Income**

- Review the laws, regulations, and the provisions of the BTOP award applicable to the BTOP project and ascertain whether program income was anticipated and the timing thereof. If so, ascertain the requirements for determining or assessing the amount of program income (e.g., a scale for determining user fees, prohibition against assessing fees against certain groups on individuals, etc.) and the requirements for recording and using program income.
- Inquire of management and review accounting records to ascertain whether program income was received.

■ **Determining or Assessing Program Income** – Perform tests to verify that program income was properly determined or calculated in accordance with stated criteria, and that program income was only collected from allowable sources.

■ **Recording of Program Income** – Perform tests to verify that all program income was properly recorded in the accounting records.

■ **Use of Program Income** - Perform tests to ascertain whether program income was used in accordance with the BTOP award requirements and 15 CFR Part 14.





4.11 Reporting

4.11.1 Compliance Requirement

NTIA and the Grants Office require the following reporting for all BTOP Recipients:

Financial Reporting: Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). Each Recipient must report program outlays and program income on a cash or accrual basis, as prescribed by NTIA.

The financial reporting requirements for Subrecipients are as specified by the Pass-Through Entity. In many cases, these will be the same as or similar to the following requirements for Recipients.

- SF-270, Request for Advance or Reimbursement (OMB No. 0348-0004) (if required in the Special Award Conditions).
- SF-271, Outlay Report and Request for Reimbursement for Construction Program (OMB No. 0348-0002) – Applicable (if specified by DOC).
- SF-425, Federal Financial Report (OMB No. 0348-0061).

Performance Reporting:

Report	Requirement	Key Line Items
Broadband Infrastructure Projects		
Broadband Infrastructure Quarterly Performance Report (OMB No. 0660-0037)	All Broadband Infrastructure Recipients are required to complete a quarterly performance report for each quarter after the first quarter after award issuance. These reports are due 30 days after the end of the calendar quarter and include project indicators and budget execution details.	<p>The following line items contain critical information:</p> <ul style="list-style-type: none"> ■ Line 4. Network Build Process: <ul style="list-style-type: none"> ● Indicator – New Network Miles Deployed ● Indicator – New Network Miles Leased ● Indicator – Existing Network Miles Upgraded ● Indicator – Existing Network Miles Leased ● Indicator – Number of New Towers ■ Line 6. Subscriber Data: <ul style="list-style-type: none"> ● Subscriber Type – Community Anchor Institutions ● Total Subscribers Served (Middle Mile Projects) ● Subscriber Type – Residential/Households ● Total Subscribers Served (Last mile) ● Subscriber Type – Businesses ● Total Subscribers Served (Last Mile)
Broadband Infrastructure Annual Performance Report (OMB No. 0660-0037)	All Broadband Infrastructure Recipients are required to complete an annual performance report within 30 days of the end of every calendar year.	<p>The following line items contain critical information:</p> <ul style="list-style-type: none"> ■ Average Cost ■ Cost Indicator – Average Cost Per New Mile





Public Computer Center Projects		
Public Computer Centers Quarterly Performance Report (OMB No. 0660-0037)	All Public Computer Center Recipients are required to complete a quarterly performance report. These reports are due 30 days after the end of the calendar quarter and include project indicators and budget execution details.	The following line items contain critical information: <ul style="list-style-type: none"> ■ Line 4. Key Indicators <ul style="list-style-type: none"> ● Indicator – New workstations installed and available to the public
Public Computer Centers Annual Performance Report (OMB No. 0660-0037)	All Public Computer Center Recipients are required to complete an annual performance report within 30 days of the end of every calendar year.	The following line items contain critical information: <ul style="list-style-type: none"> ■ Line 2. Project Indicators: <ul style="list-style-type: none"> ● Indicator – Number of PCCs Established ● Indicator – Number of PCCs Improved
Sustainable Broadband Adoption Projects		
Sustainable Broadband Adoption Quarterly Performance Report (OMB No. 0660-0037)	All SBA Recipients are required to complete a quarterly performance report. These reports are due 30 days after the end of the calendar quarter and include project indicators and budget execution details.	The following line items contain critical information: <ul style="list-style-type: none"> ■ Line 4. Project Indicators: <ul style="list-style-type: none"> ● Indicator – New Subscribers: Households ● Indicator – New Subscribers: Businesses, and/or Community Anchor Institutions
Sustainable Broadband Adoption Annual Performance Report (OMB No. 0660-0037)	All SBA Recipients are required to complete an annual performance report within 30 days of the end of every calendar year.	The following line items contain critical information: <ul style="list-style-type: none"> ■ Line 3. Training Provided: <ul style="list-style-type: none"> ● Indicator – Total Number of People Targeted

Special Reporting:

- Auditees must maintain current registrations in the Central Contractor Registration (CCR) at all times during which they have an active BTOP award funded by the Recovery Act (Round 1 NOFA, Section X.V.1.c; Round 2 NOFA, Section X.V.1).

ARRA Reporting:

Section 1512 of ARRA includes reporting requirements applicable to Recipients of awards under ARRA Division A. This section is relevant only for awards received as a prime Recipient (as defined below). This section is not applicable to awards received by a first-tier Subrecipient (*i.e.*, Subrecipients who receive an award directly from the Recipient or by a lower-level Subrecipient). An entity could have received BTOP awards as both a Recipient and a Subrecipient.

OMB has issued many documents that provide guidance on the reporting requirements under ARRA (located at http://www.whitehouse.gov/omb/recovery_default/). Among them, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009), provides relevant information for the audit procedures. The M-09-21 guidance covers the reporting requirements of Section 1512 of ARRA and includes two supplements: (1) a list of programs subject to the ARRA reporting requirements; and (2) a Recipient Reporting Data Model. M-09-21 provides extensive guidance for Recipients and Federal agencies. While not a replacement for reading the entire document, the following excerpts highlight essential information:

- *Section 2.1 What recipient reporting is required in Section 1512 of the Recovery Act?*
Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by Recipients no later than the 10th





day after the end of each calendar quarter (beginning the quarter ending September 30, 2009). Aimed at providing transparency into the use of these funds, the Recipient reports are required to include the following detailed information:

- Total amount of funds received; and of that, the amount spent on projects and activities;

A list of those projects and activities funded by name to include: (1) Description; (2) Completion status; and (3) Estimates on jobs created or retained,

Details on subawards and other payments.

■ *Section 2.2 Who is required to report under the Recovery Act?*

Recipients are responsible for reporting the information required by Section 1512 of the Act and as provided in OMB Memorandum M-09-21 (M-09-21). Prime recipients may choose to delegate certain reporting requirements to subrecipients, as described in Section 2.3.

■ *Section 2.3 What are the respective responsibilities of prime recipients and subrecipients in meeting Section 1512 reporting responsibilities?*

The prime recipient is ultimately responsible for the reporting of all data required by Section 1512 of the Recovery Act and M-09-21. Prime recipients may delegate certain reporting requirements to subrecipients, as described [further in Section 2.3 of M-09-21]. If the reporting is delegated to a subrecipient, the delegation must be made in time for the subrecipient to prepare for the reporting, including registering in the system.

The specific data elements to be reported by prime recipients and subrecipients are included in the data dictionary contained in the *Recipient Reporting Data Model*.

■ *Section 2.5 How will recipient reporting be submitted?*

The information reported by all prime recipients (and those sub-recipients to which the prime recipient has delegated reporting responsibility) will be submitted through www.FederalReporting.gov, the online Web portal that will collect all Recovery Act recipient reports.

■ *Section 2.11 How will these reports be made available to the public?*

All reports submitted pursuant to Section 1512 of the Recovery Act will be made available on www.Recovery.gov and on individual Federal agency Recovery Act websites.

OMB also issued M-10-14, *Updated Guidance on the American Recovery and Reinvestment Act* (March 22, 2010), which provides information on the continuous corrections period instituted by the Recovery Accountability and Transparency Board (RATB) in January 2010 under which Recipients can correct reported data for the immediately preceding reporting quarter after that reporting quarter has ended and after the data is published on www.FederalReporting.gov. The ending date for the continuous corrections period may vary, and Auditors should inquire of the Auditee to determine the ending date for the quarter subject to auditing procedures.

Compliance testing of the ARRA reporting requirements shall include only the following key data elements of the Section 1512 reporting:

Recipient Data Elements	Definition from M-09-21 Recipient Data Reporting Model v3.0 (June 22, 2009 as updated for the quarter ending 12/31/09)
Award Number	The identifying number assigned by the awarding Federal Agency, such as the federal grant number, federal contract number, or the federal loan number.
Award Amount	The total amount of Federal dollars on the award.





Recipient Data Elements	Definition from M-09-21 Recipient Data Reporting Model v3.0 (June 22, 2009 as updated for the quarter ending 12/31/09)
Total Federal Amount ARRA Funds Received/Invoiced	The amount of Recovery Act funds received through draw-down, reimbursement, or invoice.
Total Federal Amount of ARRA Expenditures	<p>Amount of Recovery Act funds received that were expended for projects or activities ("Federal Share of Expenditures"). The cumulative total for the amount of federally funded expenditures. For reports prepared on a cash basis, expenditures are the sum of cash disbursements for direct charges for property and services, the amount of indirect expense charged, the value of third party in-kind contributions applied, and the amount of cash advance payments and payments made to subcontractors and Subrecipients.</p> <p>For reports prepared on an accrual basis, expenditures are the sum of cash disbursements for direct charges for property and services; the amount of indirect expense incurred; the value of in-kind contributions applied; and the net increase or decrease in the amounts owed by the Recipient for:</p> <ul style="list-style-type: none"> ■ Goods and other property received; ■ Services performed by employees, contractors, subcontractors, Subrecipients, and other payees; and ■ Programs for which no current services or performance are required. Do not include program income expended.

While the "number of jobs" is a required data element on the Section 1512 reports, the Auditor is not required to test the "number of jobs" as part of the compliance work performed on Section 1512 ARRA reporting.

4.11.2 Suggested Testing Procedures: Internal Control

- Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the BTOP award.
- Plan the testing of internal control to support a low assessed level of control risk for compliance with reporting requirements and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, assess the control risk at the maximum and consider whether additional compliance tests and reporting are required because of ineffective internal control.
- Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.





4.11.3 Control Objectives

To provide reasonable assurance that reports of BTOP awards submitted to NTIA and the Grants Office or Pass-Through Entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with BTOP award requirements.

■ **Control Environment**

- Persons preparing, reviewing, and approving the reports possess the required knowledge, skills, and abilities.
- Management's attitude toward reporting promotes accurate and fair presentation.
- There is appropriate assignment of responsibility and delegation of authority for reporting decisions.

■ **Risk Management**

- Mechanisms exist to identify risks of faulty reporting caused by such items as lack of current knowledge of, inconsistent application of, or carelessness or disregard for standards and reporting requirements of BTOP awards.
- The Auditee has identified underlying source data or analysis for performance or special reporting that may not be reliable.

■ **Control Activities**

- A written policy exists that establishes responsibility and provides the procedures for periodic monitoring, verification, and reporting of BTOP award progress and accomplishments.
- A tracking system reminds staff when reports are due.
- The general ledger or other reliable records are the basis for the reports.
- Supervisory review of reports is performed to assure accuracy and completeness of data and information included in the reports.
- The required accounting method is used (e.g., cash or accrual).

■ **Information and Communication**

- An accounting or information system that provides for the reliable processing of financial and performance information for BTOP awards.

■ **Monitoring**

- Communications from external parties corroborate information included in the reports for BTOP awards.
- Reports are periodically compared to supporting records.

4.11.4 Suggested Testing Procedures: Compliance

- Identify the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the provisions of contract or grant agreements pertaining to the BTOP award.

Financial, Performance, and Special Reports

- Review applicable laws, regulations, and the provisions of contract or grant agreements pertaining to the BTOP award that pertain to reporting requirements. Determine the types and frequency of required reports. Obtain and review DOC or, in the case of a Subrecipient, Pass-Through Entity instructions for completing the reports.
 - For Financial Reports, ascertain the accounting basis used in reporting the data (*i.e.*, cash or accrual).
 - For Performance and Special Reports, determine the criteria and methodology used in compiling and reporting the data.





- Perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include:

- Comparing current period reports to prior period reports,
- Comparing anticipated results to the data included in the reports, and
- Comparing information obtained during the audit of the financial statements to the reports.

Note: The results of the analytical procedures should be considered in determining the nature, timing, and extent of the other audit procedures for reporting.

- Select a sample of each of the following report types:

- Financial Reports
- Ascertain if the Financial Reports are complete and accurate, were prepared in accordance with the required accounting basis, and were submitted timely to the Pass-Through Entity or NTIA and the Grants Office.
- Trace the amounts reported to accounting records that support the audited financial statements and the Schedule(s) of Funds Sources and Project Costs and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records. If reports require information on an accrual basis and the entity does not prepare its accounting records on an accrual basis, determine whether the reported information is supported by available documentation.
- For any discrepancies noted in SF-425 reports, review subsequent SF-425 reports to ascertain whether the discrepancies were appropriately resolved.
- Performance and Special Reports
- Trace the reported data to records that accumulate and summarize data.
- Perform tests of the underlying data to verify that the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.

- Test the selected reports for accuracy and completeness.

- For Financial Reports, review accounting records and ascertain whether all applicable accounts were included in the sampled reports (e.g., program income, expenditure credits, loans, interest earned on BTOP award funds, and reserve funds).
- For Performance and Special Reports, review the supporting records and ascertain whether all applicable data elements were included in the sampled reports.
- For each type of report—
- When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.
- Test mathematical accuracy of reports and supporting worksheets.

- Obtain written representation from management that the reports provided to the Auditor are true copies of the reports submitted or electronically transmitted to NTIA or, in the case of a Subrecipient, to the Pass-Through Entity.

ARRA Section 1512 Reports

- Review OMB Memorandum M-09-21 and other relevant guidance at http://www.whitehouse.gov/omb/recovery_default/ regarding ARRA reporting requirements. Determine the methodology used in compiling and reporting the key data elements and ascertain whether the entity passed-through funding to any Subrecipient.
- For awards received as a Recipient, select the ARRA Section 1512 report for the calendar quarter preceding the entity's award year, or for a major program with multiple awards, select a sample of ARRA Section 1512 reports for the calendar quarter preceding the entity's award year. For example, the calendar quarter preceding an April 30, May 30, or June 30 entity fiscal year-end would be the quarter ending March 31.





- For each selected report, inquire of the Auditee as to whether it considers the report available on www.Recovery.gov to be its final submission. (The Auditor should only test final submissions.) Find the award on www.Recovery.gov using the following link:

<http://www.recovery.gov/Pages/TextViewProjSummary.aspx?data=RecipientAwardsList&RenderData=ALL&State=ALL&Agency=ALL&Amount=ALL&AwardType=CGL> and search by award number.

The following steps to provide guidance to assist the Auditor in locating the award from the [Recovery.gov/homepage](http://www.Recovery.gov). (Note that the website may have been modified since April 2011).

- Select "Where Is the Money Going?" tab
- Select "Recipient Reported Data" from the drop-down menu
- Scroll down to the center of the page; find the Recipient Reported Data Search section
- Click on "Go" (do not enter the name of the Agency, State/Territory or the amount) to be taken to the "Advanced Recipient Reported Data Search"

- For awards received as a Recipient –
 - Trace the key data elements to records that accumulate and summarize data to verify that the data elements were presented in accordance with ARRA Section 1512 reporting requirements.
 - Perform tests of the underlying data to verify that the data were presented in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.
 - When intervening computations or calculations are required between the records and the data elements, trace reported data elements to supporting worksheets or other documentation that link reports to the data.
 - Test the mathematical accuracy of supporting worksheets.
 - If an entity passed-through funding under the award to any Subrecipient, ascertain if the Pass-Through Entity had a process to monitor the accuracy of reporting, whether or not the reporting has been delegated to the Subrecipient.

4.12 Subrecipient Monitoring

4.12.1 Compliance Requirement

Each Recipient is responsible for monitoring and shall require all Subrecipients, including lower-tier Subrecipients, to comply with the provisions of the award, including applicable cost principles, administrative requirements, and audit requirements. Recipients must also identify BTOP awards made by informing each Subrecipient of BTOP's CFDA title and number, award name and number, award year, and the name of the awarding agency (NTIA and the NOAA or NIST Grants Office). Recipients must monitor Subrecipients' use of BTOP award funds through reporting, site visits, regular contact, or other means to provide reasonable assurance that the Subrecipient administers the BTOP award in compliance with laws, regulations, and the provisions of the grant agreement and that performance goals are achieved. Recipients further need to ensure that all Subrecipients have met their BTOP audit requirements. Within six months after receipt of the Subrecipient's audit report, a Recipient must issue a management decision on Audit Findings and ensure that the Subrecipient takes appropriate corrective action on any findings. In cases of continued inability or unwillingness of a Subrecipient to have the required audits, the Pass-Through Entity shall take appropriate action using sanctions (Round 1 NOFA, Section IX.C; Round 2 NOFA, Section IX.C; DOC Financial Assistance Standard Terms and Conditions § J.02).

Following are examples of factors that may affect the nature, timing, and extent of during-the-award monitoring:

- Percentage passed through – The larger the percentage of BTOP awards passed through, the greater the need for monitoring.
- Amount of BTOP awards and subawards – Larger dollar awards are of greater risk.





- Risk – A Subrecipient may be evaluated as higher risk or lower risk to determine the need for closer monitoring. Generally, a new Subrecipient would require closer monitoring. Based on results of during-the-award monitoring and Subrecipient audits, an existing Subrecipient may warrant closer monitoring (e.g., the Subrecipient has: (1) a history of non-compliance as either a Recipient or Subrecipient; (2) new personnel; or (3) new or substantially changed systems).

Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting* – Reviewing financial and performance reports submitted by the Subrecipient.
- *Site Visits* – Performing site visits at the Subrecipient to review financial and BTOP award programmatic records and observe operations.
- *Regular Contact* – Regular contact with Subrecipients and appropriate inquiries concerning BTOP award activities.

4.12.2 Suggested Testing Procedures: Internal Control

- Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the BTOP award.
- Plan the testing of internal control to support a low assessed level of control risk for compliance with monitoring requirements and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, assess the control risk at the maximum and consider whether additional compliance tests and reporting are required because of ineffective internal control.
- Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4.12.3 Control Objectives

To provide reasonable assurance that BTOP award information and compliance requirements are identified to Subrecipients, activities are monitored, Subrecipient Audit Findings are resolved, and the impact of any Subrecipient noncompliance on the Pass-Through Entity is evaluated. Also, the Pass-Through Entity should perform procedures to provide reasonable assurance that Subrecipients obtain required audits and take appropriate Corrective Action on Audit Findings.

■ **Control Environment**

- Management has established a “tone at the top” demonstrating its commitment to monitoring Subrecipients.
- Management does not tolerate overriding established procedures for monitoring Subrecipients.
- The Auditee’s organizational structure and its ability to provide the necessary information flow to monitor Subrecipients are adequate.
- Sufficient resources are dedicated to monitoring.
- The knowledge, skills, and abilities needed to accomplish monitoring tasks are defined.
- Individuals performing monitoring possess the knowledge, skills, and abilities required.
- Subrecipients demonstrate that:
 - They are willing and able to comply with the requirements of the award and subaward.
 - They have accounting systems, including the use of applicable cost principles, and internal control systems adequate to administer awards.
 - Appropriate sanctions are taken for noncompliance.





■ **Risk Assessment**

- Key managers understand the Subrecipient's environment, systems, and controls sufficiently to identify the level and methods of monitoring required.
- Mechanisms exist to identify risks arising from external sources affecting Subrecipients, such as risks related to:
 - Economic conditions,
 - Political conditions,
 - Regulatory changes, or
 - Unreliable information.
- Mechanisms exist to identify and react to changes, such as:
 - Financial problems that could lead to diversion of grant funds,
 - Loss of essential personnel,
 - Loss of license or accreditation to conduct BTOP award-related activities,
 - Rapid growth,
 - New activities, products, or services, and
 - Organizational restructuring.

■ **Control Activities**

- Identify to Subrecipients the BTOP award information (e.g., CFDA title and number, award name, name of NTIA and the NOAA or NIST Grants Office, amount of award) and applicable compliance requirements.
- Include in agreements with Subrecipients the requirement to comply with the requirements applicable to the BTOP award, including the audit requirements in the DOC Financial Assistance Standard Terms and Conditions.
- Subrecipients' compliance with audit requirements is monitored using techniques such as the following:
- Determining by inquiry and discussions whether Subrecipients met thresholds requiring an audit under OMB Circular A-133 or this BTOP Program-Specific Audit Guide;
- If an audit is required, assuring that the Subrecipient submits the report, report package, or the documents required by OMB circulars and/or this Program-Specific Audit Guide; and
- If a Subrecipient was required to obtain an audit in accordance with OMB Circular A-133 or these Program-Specific Audit Guidelines but did not do so, following up with the Subrecipient until the audit is completed. Taking appropriate actions, such as withholding further funding, until the Subrecipient meets the audit requirements.
- Subrecipients' compliance with BTOP award requirements is monitored using such techniques as the following:
- Issuing timely management decisions for Subrecipient audits and monitoring findings to inform the Subrecipient whether its corrective action plan is acceptable,
- Maintaining a system to track and follow up on reported deficiencies related to BTOP subawards funded by the Recipient and ensure that timely corrective action is taken,
- Regular contact with Subrecipients and appropriate inquiries concerning the BTOP award,
- Reviewing reports and following up on areas of concern,
- Monitoring budgets,
- Monitoring Section 1512 ARRA Reporting,
- Performing site visits to Subrecipients to review financial and programmatic records and observe operations, and





- Offering Subrecipients technical assistance where needed.
- Official written policies and procedures exist establishing:
- Communication of BTOP award requirements to Subrecipients;
- Responsibilities for monitoring Subrecipients;
- Process and procedures for monitoring;
- Methodology for resolving findings of noncompliance or weaknesses in internal control; and
- Requirements for and processing of audits, including appropriate adjustment of Pass-Through Entity's accounts.

■ **Information and Communication**

- Standard award documents used by the BTOP Recipient contain:
- A listing of Federal requirements that the Subrecipient must follow. Items can be specifically listed in the award document, attached as an exhibit to the document, or incorporated by reference to specific criteria.
- The description and BTOP award number as stated in the CFDA. If BTOP award funds include pass-through funds from another Recipient, the pass-through information should also be identified (*i.e.*, award number as assigned by either the NOAA or NIST Grants Office).
- A statement signed by an official of the Subrecipient stating that the Subrecipient was informed of, understands, and agrees to comply with the applicable compliance requirements.
- A recordkeeping system is in place to ensure that Subrecipients' documentation is retained for the time period required by the Recipient.
- Procedures are in place to provide channels for Subrecipients to communicate concerns to the Pass-Through Entity.

■ **Monitoring**

- Establish a tracking system to assure timely submission of required reporting, such as financial reports, performance reports, audit reports, onsite monitoring reviews of Subrecipients, and timely resolution of Audit Findings.
- Supervisory reviews are performed to determine the adequacy of monitoring.

The Auditor may consider coordinating the tests related to Subrecipients that are performed as part of Cash Management (tests of cash reporting submitted by Subrecipient) and Procurement (tests for ensuring that a Subrecipient is not suspended or debarred) with the testing of Subrecipient Monitoring.

4.12.4 Suggested Testing Procedures: Compliance

- Gain an understanding of the Pass-Through Entity's procedures through a review of the Pass-Through Entity's monitoring policies and procedures (e.g., annual monitoring plan) and discussions with staff. This should include an understanding of the scope, frequency, and timeliness of monitoring activities and the number, size, and complexity of awards to Subrecipients, including, as applicable, subawards to for-profit Recipients.
- Test the Pass-Through Entity's subaward review and approval documents to determine whether, before award, the Pass-Through Entity checked CCR to determine whether Subrecipients were registered.
- Test award documents and agreements to ascertain if: (a) at the time of award the Pass-Through Entity made Subrecipients aware of the award information (*i.e.*, CFDA title and number, award name and number; and NTIA and Grants Office name) and requirements imposed by laws, regulations, and the provisions of contract or grant agreements; and (b) the activities approved in the award documents were allowable.





- Review the Pass-Through Entity's documentation of during-the-award monitoring to ascertain whether the Pass-Through Entity's monitoring provided reasonable assurance that Subrecipients used BTOP awards for authorized purposes; complied with laws, regulations, and the provisions of contracts and grant agreements; and achieved performance goals.
- Review the Pass-Through Entity's follow-up to ensure corrective action on deficiencies noted in during-the-award monitoring.
- Verify that the Recipient Pass-Through Entity:
 - Ensured that the required audits were completed,
 - Issued management decisions on Audit Findings after receipt of the Subrecipient's audit report, and
 - Ensured that Subrecipients took appropriate and timely corrective action on all Audit Findings.
- Verify that, in cases of continued inability or unwillingness of a Subrecipient to have the required audits, the Pass-Through Entity took appropriate action using sanctions.
- Verify that the effects of noncompliance are properly reflected in the Pass-Through Entity's records.
- Verify that the Pass-Through Entity monitored the activities of Subrecipients, including for-profit Recipients, using techniques such as those discussed in the "Compliance Requirements" provisions of this section.
- Determine whether the Pass-Through Entity has procedures that allow it to identify the total amount provided to Subrecipients from each BTOP award.

4.13 Special Tests and Provisions – Nondiscrimination and Interconnection Obligations

4.13.1 Compliance Requirements

Recipients of Broadband Infrastructure awards must commit to nondiscrimination and interconnection obligations that include: (1) adherence to principles contained in the FCC's Internet Policy Statement (FCC 05-151, adopted Aug. 5, 2005), which can be found at http://fjallfoss.fcc.gov/edocs_public/attachmatch/FCC-05-151A1.pdf, or any subsequent ruling or statement; (2) not favoring any lawful Internet application or content over others; (3) displaying any network management policies in a prominent location on the service provider's web page and providing notice to customers of changes to these policies; (4) connecting to the public Internet directly or indirectly, such that the project is not an entirely private, closed network; and (5) offering interconnection, where technically feasible, without exceeding current or reasonably anticipated capacity limitations, at reasonable rates and terms to be negotiated with requesting parties.

These conditions apply for the useful life of the Recipient's facilities used in the project and not to any existing network arrangements at the time of the award. The useful life schedule is available at http://www2.ntia.doc.gov/files/fact_sheet_useful_life_schedule_082510_v1.pdf. For Round 1 Recipients, the conditions apply to any contractors or subcontractors of Auditees that operate the network facilities for the Broadband Infrastructure project (Round 1 NOFA, Section V.C.2.c; Round 2 NOFA, Section V.D.3.b).

4.13.2 Audit Objective

Determine whether the Recipient is adhering to nondiscrimination and interconnection obligations.

4.13.3 Suggested Audit Procedure

- Verify that the Recipient has, in effect, written interconnection, nondiscrimination, and network management policies.
- Verify that the Recipient displays its network management policies in a prominent location on its primary website and has provided notice to customers of changes to these policies. For this purpose, prominent means that a link to these policies and notices must be available within one click from the main page.





- For Round 1 Recipients, determine whether the Recipient has included nondiscrimination and interconnection requirements in any of its subaward or service contracts to deploy or operate the network facilities under the BTOP award.
- Verify that the Recipient has a written outreach policy that advertises availability of a public Internet connection, rather than just a connection to its own services, using media of general distribution. This policy must contain reasonable advertisement of and monitoring, as well as timely response to enforcement actions associated with complaints received by the Recipient regarding its rates. To the extent that a Recipient's interconnection rates are incorporated into its BTOP award, it should not charge rates higher than those rates.
- Verify that the Recipient maintains a publicly available list of all Points of Interconnection associated with its BTOP award-funded network.
- Verify that the Recipient maintains a standardized method for parties to make inquiries and request service. Verify that the method requires the Recipient to respond to all such requests in a reasonable period of time (typically not more than 10 business days).

4.14 Special Tests and Provisions – Duplicate Federal Funding for Broadband Projects

4.14.1 Compliance Requirements

A BTOP Recipient must not duplicate activities that would result in unjust enrichment as a result of support for non-recurring costs through another Federal program for service in the area or duplicate funds that the Recipient received under Federal Universal Service support programs administered by the Universal Service Administration Corporation ("FCC USF Programs"), grant or loan programs administered by the Rural Utilities Service, or any other Federal program (ARRA, Section 6001(h)(2)(D); Round 2 NOFA, Section IX.C.5.e).

4.14.2 Audit Objective

Determine whether the Recipient is receiving support from FCC USF Programs that duplicate BTOP awards expended for Recipient's BTOP funded project.

4.14.3 Suggested Audit Procedures

- Verify that an SBA or PCC Recipient does not receive BTOP funds to pay for any discounted portion of broadband services or internal connections for which it receives support from FCC USF Programs.
- Verify that a Broadband Infrastructure, SBA, or PCC Recipient does not contribute, as part of its match, internal connections or other equipment related non-recurring costs that were funded by FCC USF Programs.





Appendix A: Independent Auditor's Report on the Schedule(s) of Funds Sources and Project Costs

**Independent Auditor's Report on the Schedule of Funds Sources and Project Costs for
National Telecommunications and Information Administration's Broadband Technology Opportunities Program [Insert
Auditee's Project Title], Award Number [Insert Award Number]
For the Period of [Enter Audit Period (e.g., 04/01/2011-03/31/2013)]**

Independent Auditor's Report

[Addressee]

We have audited the accompanying Schedule of Funds Sources and Project Costs (the Schedule) for the National Telecommunications and Information Administration's (NTIA) Broadband Technology Opportunities Program (BTOP) titled, [insert specific project name (e.g., One Maryland), Award Number [insert award number], of Example Entity, for the period [insert period being audited; e.g., April 1, 2011 through March 31, 2013]

1. This Schedule is the responsibility of Example Entity's management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*,² issued by the Comptroller General of the United States; and the *Program-Specific Audit Guidelines for the Broadband Technology Opportunities Program*, issued by the NTIA of the U.S. Department of Commerce (the BTOP Guide). Those standards and the BTOP Guide require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule, as well as evaluating the overall presentation of the schedule. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedule was prepared for the purpose of complying with the requirements of the NTIA BTOP [insert Auditee project name], entered into by Example Entity and the U.S. Department of Commerce as described in Note X and is not intended to be a complete presentation of Example Entity's revenues and expenses.

¹ As noted in Section 1.5, Frequency, the audit period may be for a single year, multiple years, or for a period of months (e.g., 16 months).

² The standards applicable to financial audits are the general, fieldwork, and reporting standards described in *Government Auditing Standards*.





In our opinion, the Schedule referred to above presents fairly, in all material respects,³ the receipts and project costs of the NTIA BTOP [insert Auditee project name] for the period [insert period being audited; e.g., April 1, 2011 through March 31, 2013] in conformity with accounting principles generally accepted in the United States of America.⁴

This report is intended solely for the information and use of management, [identify the body or individuals charged with governance], and the U.S. Department of Commerce,⁵ and should not be used for any other purpose.

[Signature]

[Date]

³ If issuing a qualified or adverse opinion on compliance, the Auditor may modify the compliance section of this report. Additionally, if reporting significant deficiencies or material weaknesses, the Auditor may also modify the internal control section of this report. See Footnote 17.

⁴ If the schedule is prepared using another comprehensive basis of accounting (e.g., cash basis), this paragraph and the preceding paragraph should be deleted and replaced with the following paragraphs:

The accompanying schedule was prepared for the purpose of complying with the requirements of the NTIA BTOP [insert Auditee project name], entered into by Example Entity and the U.S. Department of Commerce as described in Note X and is not intended to be a complete presentation of Example Entity's revenues and expenses. As discussed in Note Y, this Schedule was prepared in accordance with [identify basis of accounting; e.g., cash basis of accounting], which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above presents fairly, in all material respects,⁴ the receipts and project costs—[identify basis of accounting; e.g., cash basis of accounting] of the NTIA BTOP [insert Auditee project name], for the period [insert period being audited; e.g., April 1, 2011 through March 31, 2013].

⁵ If the Auditee is a Subrecipient, the Pass-Through Entity should also be listed in this paragraph.





Appendix B: Independent Auditor's Report on Compliance and Internal Control Over Compliance

**Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on the National Telecommunications and Information Administration's Broadband Technology Opportunities Program [Insert Auditee's Project Title], Award Number [Insert Award Number] For the Period of [Enter Audit Period (e.g., 04/01/2011-03/31/2013)] and on Internal Control over Compliance
(Unqualified Opinion on Compliance, No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified)¹**

Independent Auditor's Report

[Addressee]

Compliance

We have audited Example Entity's compliance with the types of compliance requirements described in the *Program-Specific Audit Guidelines for the Broadband Technology Opportunities Program*, issued by the National Telecommunications and Information Administration (NTIA) of the U.S. Department of Commerce (the BTOP Guide) that could have a direct and material effect on the NTIA BTOP [insert Auditee project name]. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the NTIA BTOP [insert Auditee project name] is the responsibility of the Example Entity's management. Our responsibility is to express an opinion on Example Entity's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in the *Government Auditing Standards*,² issued by the Comptroller General of the United States; and the BTOP Guide. Those standards and the BTOP Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the NTIA BTOP [insert Auditee project name] occurred. An audit includes examining, on a test basis, evidence about Example Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Example Entity's compliance with those requirements.

¹ If issuing a qualified or adverse opinion on compliance, the Auditor may modify the compliance section of this report. Additionally, if reporting significant deficiencies or material weaknesses, the Auditor may also modify the internal control section of this report. Illustrations of such "modified" reporting for a single audit performed under OMB Circular A-133 are available in the AICPA Audit Guide, [Government Auditing Standards and Circular A-133 Audits](#) (see chapters 13 and 14), or electronically on the AICPA Governmental Audit Quality Center Web site at:

<http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeReports/Pages/default.aspx>. While reporting under the BTOP Guide is not done under Circular A-133, Auditors may find these examples useful for the purpose of making needed modifications to this report when issuing a modified opinion on compliance or reporting significant deficiencies or material weaknesses.

² The standards applicable to financial audits are the general, fieldwork, and reporting standards described in *Government Auditing Standards*.





In our opinion, Example Entity complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its NTIA BTOP *[insert Auditee project name]* for the period *[insert period being audited; e.g., April 1, 2011 through March 31, 2013]*.³

Internal Control Over Compliance

The management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to BTOP awards. In planning and performing our audit, we considered Example Entity's internal control over compliance with the requirements that could have a direct and material effect on its NTIA BTOP *[insert Auditee project name]* to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the BTOP Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a BTOP award on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a BTOP award will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, *[identify the body or individuals charged with governance]*, and the U.S. Department of Commerce,⁴ and should not be used for any other purpose.

[Signature]

[Date]

³ In accordance with Statement on Auditing Standards No. 117, *Compliance Audits* (paragraphs 34 and 35), the Auditor should modify the opinion on compliance if any of the following conditions exist:

- The compliance audit identifies noncompliance with the types of compliance requirements that the Auditor believes has a material effect on the entity's compliance.
- There is a restriction on the scope of the audit.

Additionally, the auditor should modify this report when the auditor makes reference to the report of another auditor as the basis, in part, for the auditor's report.

⁴ If the Auditee is a Subrecipient, the Pass-Through Entity should also be listed in this paragraph.





Appendix C-1: Broadband Infrastructure Projects

**Schedule of BTOP Award Funds Sources
and Project Costs¹ for Broadband Infrastructure Projects
for NOAA's Grant Agreement
Award Number #
CFDA 11.557**

For the Period of [04/01/10 – 3/31/11]

	<i>Approved Budget²</i>	<i>Actual Receipts & Project Costs</i>
Fund Sources		
<i>BTOP Award Funds</i>		
<i>Recipient's Cost Share Cash</i>		
<i>Recipient or Subrecipient Non-cash Donation</i>		
<i>Third Party In-kind</i>		
<i>Program Income</i>		
<i>Other</i>		
Total Fund Sources		
Direct Project Costs		
<i>Administrative and Legal</i>		
<i>Land, Structures, Rights of Ways</i>		
<i>Relocation Expenses</i>		
<i>Architectural and Engineering Fees</i>		
<i>Other Architectural and</i>		

¹ A schedule shall be prepared for each Award Year of the project but may be combined into a single spreadsheet (based on the period being audited) as illustrated in Appendix C-2. See also Section 1.5, Frequency, Section 2.1, Audit Requirements, and Section 3, Schedule of Funds Sources and Project Costs, for additional information.

² Include amendment number and date of budget being used.





<i>Engineering Fees</i>		
<i>Project Inspection Fees</i>		
<i>Site Work</i>		
<i>Construction</i>		
<i>Equipment</i>		
<i>Supplies</i>		
<i>Miscellaneous</i>		
<i>Contingencies</i>		
<i>Total Direct Costs</i>		
<i>Total Indirect Costs</i>		
<i>Total Project Costs</i>		

The accompanying notes are an integral part of this Schedule.³

NOTES:

- **Reporting Entity:** Describe the Recipient's business, including when it was founded, where its headquarters are located, where it operates, and a brief description of its line of business or purpose.
- **Project Description:** A general description of the project funded with the BTOP award.
- **Award:** Describe the BTOP award, including the name of the award Recipient, the amount of the award, including required cash match, and the major Subrecipients and contractors to the award.
- **Related Party Transactions:** Discuss any related party transactions material to the schedule.
- **Subsequent Events:** Events occurring after the end of the award period but before the audit report is issued and significant to the BTOP award.
- **Other:** Significant information to help the user of the schedule with a comprehensive assessment of the BTOP award.

³ See Section 3, Schedule of Funds Sources and Project Costs, for more information about footnote disclosures.





Appendix C-2: Broadband Infrastructure Project – Multi-Year

**Schedules of BTOP Award Funds Sources
and Project Costs¹ for Broadband Infrastructure Projects
for NOAA's Grant Agreement Award Number
CFDA 11.557**

For the Period of [04/01/2011 – 03/31/2013]

	Award Year 1 [04/01/2011-03/31/2012]		Award Year 2 [04/01/2012-03/31/2013]	
	Approved Budget ²	Actual Receipts & Project Costs	Approved Budget ³	Actual Receipts & Project Costs
Fund Sources				
<i>BTOP Award Funds</i>				
<i>Recipient's Cost Share Cash</i>				
<i>Recipient or Subrecipient Non- cash Donation</i>				
<i>Third Party In-kind</i>				
<i>Program Income</i>				
<i>Other</i>				
Total Fund Sources				
Direct Project Costs				
<i>Administrative and Legal</i>				
<i>Land, Structures, Rights of Ways</i>				

¹ A schedule shall be prepared for each Award Year of the project but may be combined into a single schedule (based on the period being audited) as illustrated here. See Appendix C for a one-year period presentation. See also Section 1.5, Frequency, Section 2.1, Audit Requirements, and Section 3, Schedule of Funds Sources and Project Costs, for additional information. Include amendment number and date of budget being used.

² Include amendment number and date of budget being used.

³ See footnote 18.





<i>Relocation Expenses</i>				
<i>Architectural and Engineering Fees</i>				
<i>Other Architectural and Engineering Fees</i>				
<i>Project Inspection Fees</i>				
<i>Site work</i>				
<i>Construction</i>				
<i>Equipment</i>				
<i>Supplies</i>				
<i>Miscellaneous</i>				
<i>Contingencies</i>				
<i>Total Direct Costs</i>				
<i>Total Indirect Costs</i>				
<i>Total Project Costs</i>				

The accompanying notes are an integral part of this Schedule.⁴

NOTES:

- **Reporting Entity:** Describe the Recipient's business, including when it was founded, where its headquarters are located, where it operates, and a brief description of its line of business or purpose.
- **Project Description:** A general description of the project funded with the BTOP award.
- **Award:** Describe the BTOP award, including the name of the award Recipient, the amount of the award, including required cash match, and the major Subrecipients and contractors to the award.
- **Related Party Transactions:** Discuss any related party transactions material to the schedule.
- **Subsequent Events:** Events occurring after the end of the award period but before the audit report is issued and significant to the BTOP award.
- **Other:** Significant information to help the user of the schedule with a comprehensive assessment of the BTOP award.

⁴ See Section 3, Schedule of Funds Sources and Project Costs, for more information about footnote disclosures.





Appendix C-3: SBA/PCC Projects

**Schedule of BTOP Award Funds Sources
and Project Costs for SBA/PCC Projects
for NIST's Grant Agreement
Award Number #
CFDA 11.557**

For the Period of [01/01/2012 – 4/30/2013]

	Approved Budget ¹	Actual Receipts & Project Costs
Fund Sources		
BTOP Award Funds		
Recipient's Cost Share		
Cash		
Recipient or Subrecipient Non-cash Donation		
Third Party In-kind		
Program Income		
Other		
Total Fund Sources		
Direct Project Costs		
Direct Costs		
Project Salaries		
Fringe Benefits		
Travel		
Equipment		
Materials/Supplies		
Subcontracts		
Other		
Audit Costs		

¹ Include amendment number and date of the budget being used.





<i>Other Project Costs</i>		
<i>Total Direct Costs</i>		
<i>Total Indirect Costs.</i>		
Total Project Costs		

The accompanying notes are an integral part of the Schedule.²

NOTES:

- **Reporting Entity:** Describe the Recipient's business, including when it was founded, where its headquarters are located, where it operates, and a brief description of its line of business or purpose.
- **Project Description:** A general description of the project funded with the BTOP award.
- **Award:** Describe the BTOP award, including the name of the award Recipient, the amount of the award, including required cash match, and the major Subrecipients and contractors to the award.
- **Related Party Transactions:** Discuss any related party transactions material to the schedule.
- **Subsequent Events:** Events occurring after the end of the award period but before the audit report is issued and significant to the BTOP award.
- **Other:** Significant information to help the user of the schedule with a comprehensive assessment of the BTOP award.

² See Section 3, Schedule of Funds Sources and Project Costs, for more information about footnote disclosures.





Appendix D: Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

For the Period of xx/xx/xx to xx/xx/xx

Schedule of Findings and Questioned Costs

[RECIPIENT/ NAME]

Award Years: []

BTOP Award Number: []

[Pass-through Name, if applicable]

CFDA # 11.557

Finding [Year]-1; Matching

Criteria:

Matching Funds. Recipients must provide a non-Federal contribution of at least 20 percent of the total allowable project costs, unless the Assistant Secretary grants a waiver. Round 1 NOFA, Section V.C.4.b.

15 CFR § 14.23 provides the following basic criteria for the matching funds identified to be acceptable:

- Are verifiable from the Recipient's or Subrecipient's records;
- Are not included as contribution for any other Federally-assisted project or program, unless specifically allowed;
- Are necessary and reasonable for proper and efficient accomplishment of project or program objectives;
- Are allowed under the applicable cost principles;
- Are not paid by the Federal Government under another award, except where authorized by Federal statute to be allowable for cost sharing or matching;
- Are provided for in the budget when required by NTIA and the Grants Office; and
- Conform to other applicable provisions of 15 CFR Part 14 and the laws, regulations, and provisions of contract or grant agreements applicable to the program.

Condition:

Due to limitations in the Recipient's accounting system, funds were commingled and we were unable to determine if the matching funds allocated were Federal or non-Federal. Since the accounting system does not allow specific identification of cost sharing by grant, we were unable to test the accuracy of amounts reported as matching funds.

During our testing, we determined that the grant included a cost share requirement. These requirements are as follows:

1. Award # [GOL/GMIS #] requires \$x of cost sharing by [end of audit period]. This grant reported \$y on Form SF-269 as of June 30, 2010.
 - As the closing date is [end of audit period], an additional \$z is required to meet the match. No reports could be provided to verify the value of cost share reported during Fiscal Year 2010.
 - Cost sharing information could not be obtained from either the grant accountant or the PI. Therefore, it could not be determined if the match was met, nor could the source of the match be identified.

Questioned Cost:

For Award # [], \$z of matching funds cannot be supported nor can they be traced to supporting documentation, therefore, it is considered a questioned cost. Total questioned costs for matching funds are \$z.





Cause of Condition:

The Recipient has not fully implemented adequate controls to identify and monitor grants with cost sharing requirements, and therefore, there is no consistent method in place to track where the funds are allocated and to ensure that the same fund is not used for multiple requirements. The review of matching funds is only performed on a prospective basis. A dedicated account for the grant either has not been set up or has not been utilized.

Additionally, the Recipient's process and controls did not appear to be consistently followed in order to ensure all cost shares are reported using proper means, nor are there tracking mechanisms consistently put into place to monitor what expenditures are being reported as cost match. This could lead to unallowable cost share expenditures and inaccurate financial reporting.

Effect:

Insufficient matching of federal dollars may hinder the successful completion of the project. With inconsistent compliance with controls surrounding identifying, establishing, monitoring, and reporting cost sharing activity, the Recipient is at risk of non-compliance with the cost sharing requirements. With the cost sharing funds commingled with BTOP award funds and lack of clear documentation delineating the two sources, there is a risk that the Recipient is using the same funds to meet multiple matching requirements. This could also lead to incorrect reporting to the Federal government as Federal funds are being used to meet the cost share requirement. In addition, if Recipient matching share is disallowed, then the Recipient would owe the government the matching share and Federal share relating to that match under the DOC Financial Assistance Standard Award Terms and Conditions.

Recommendation:

We recommend that the Recipient fully implement policies and procedures to demonstrate the satisfaction of matching requirements on grants with such stipulations. The Recipient should consider a process whereby separate Recipient-funded cost sharing accounts are established in the general ledger for the grant with cost matching requirements to allow for easy identification and support of all items used to satisfy the cost matching requirement. Because the grant requires cost matching (and their related cost share accounts), it should be tracked centrally and completely, including the dollar amount of the match required, deadlines of match, and current match reported. The reported cost match should be maintained in a separate account and the balance should be supported by documentation for the costs incurred. Additionally, we recommend that the Recipient implement the policy for all grants that are active during the year, even those that existed prior to policy creation. The Recipient should also correct the specific cost share issues mentioned above.

Corrective Action Plan:

Management will develop policies and procedures to ensure that cost matching requirements are properly tracked and met. This will include establishing dedicated general ledger accounts to record matching funds for grants while separating BTOP award costs and other costs. In addition, we are installing and implementing new PeopleSoft accounting software. The migration to the PeopleSoft System will enhance the controls and offer greater identification and accountability of cost sharing.

Finding [Year]-2; Monitoring

Criteria:

Recipients and Subrecipients are required to comply with the obligations set forth in the Recovery Act and the requirements established in the NOFA. Any obligation that applies to the Recipient shall extend for the life of the award-funded facilities. Round 1 NOFA, Section IX.C.

Management should determine that Subrecipients have current Central Contractor Registration prior to making subawards and perform periodic checks to ensure that Subrecipients are updating information, as necessary.

Condition:

It was noted that management is not reviewing the Central Contractor Registration website for verification.

Effect:

Management could be doing business with an organization that is not considered valid based on the Central Contractor Registration criteria.





Questioned Costs:

As part of our audit procedures, we verified that Subrecipients were all registered with the Central Contractor Registration based on a review of the website. As such, there are no questioned costs to be reported.

Recommendation:

We recommend that management review the Central Contractor Registration website before entering into an agreement with a Subrecipient. We also recommend that periodically throughout the term of the agreements, the website be checked for any changes made to the organization.

Corrective Action Plan:

Management will develop procedures to ensure proper review of the Central Contractor Registration website before entering into any agreements with a Subrecipient. On an annual basis, the website will be checked for any possible status changes.

